THE BOOK WAS DRENCHED

REPORT
OF THE
FISCAL COMMISSION
1949-50

Volume One

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BOOK I

INTRODUCTION AND APPROACH

This Book deals with introductory matters. In Chapter I, we describe the circumstances leading to the appointment of the Fiscal Commission, and the progress of its work. We also analyse its terms of reference and elucidate the structure of the Report. In Chapter II, we set out the fundamental objectives of the country's economic policy in the light of the provisions of the Constitution of India and the Statement on Industrial Policy made in April 1948; for it is only against the background of these principles that we can effectively formulate our views.

CHAPTER I

INTRODUCTORY

Origin of the Commission

1. The Fiscal Commission owes its origin to the Statement on Industrial Policy made by the Government of India in 1948. In this Statement the Government of India re-affirmed their intention of designing the country's long-term tariff policy to suit the needs of post-war India in the following words:—

> "The Government of India are fully alive to their direct responsibility for the development of those industries which they have found necessary to reserve exclusively for State enterprise. They are equally ready to extend their assistance to private or co-operative enterprise in the rest of the industrial field and in particular, by removing transport difficulties and by facilitating the import of essential raw materials to the maximum possible extent. The tariff policy of Government *will be designed to prevent unfair competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer.*"

It was in pursuance of this undertaking that the Fiscal Commission was set up.

Composition and Terms of Reference

2. In their Resolution No. 34-T(37)/48 dated the 20th April 1949 setting up the Fiscal Commission, the Government of India in the Ministry of Commerce referred to the last sentence of the above excerpt from the Government of India's Statement of Industrial Policy and added—

> "Having regard to the importance of the issues involved and the necessity to synthesise the needs of the divergent interests that are concerned, it has been decided that a Fiscal Commission be appointed to enquire into this matter in detail with the following terms of reference:
>
> (1) To examine, in consultation with all the interests concerned, the working of the policy of the Government of India with regard to protection of industries since 1922 when the last Fiscal Commission reported; and
>
> (2) To make recommendations as to—
>
> (a) the future policy which the Government should adopt in regard to protection to and assistance of industries, and the treatment and obligations, of the industries which may be protected or assisted;

(b) the machinery required to implement such policy, and

(c) any other matter having a direct bearing on the effective implementation of this policy.

(3) In considering these issues the Commission will be free to distinguish between short and long term aspects of the problem and also advise in the light of the country's requirements how far it would be desirable to undertake international obligations of the kind involved in the General Agreement on Tariffs and Trade or the Charter of the International Trade Organisation.

The Commission will consist of—

Chairman

Shri V. T. Krishnamachari.

Members

(1) Dr. B. N. Ganguli

(2) Shri B. M. Birla

(3) Shri M. Ananthasayanam Ayyangar, M.P.

(4) Chaudhry Mukhtar Singh, M.P.

(5) Shri Khandubhai Desai, M.P.

(6) Shri D. L. Mazumdar, I.C.S. (Member-Secretary).

Government may appoint further members to the Commission as and when necessary."

Two days later, Shri Ambalal Sarabhai was appointed as a member of the Commission.

Subsequently an addition was made to these terms of reference and the Commission was asked to examine from the point of view of India's interests the effects of preferences accorded to some categories of imports from the United Kingdom, under the Indo-British Trade Agreement of 1939.

3. Shri D. L. Mazumdar, I.C.S., Member-Secretary of the Commission, was not relieved of his other duties till the 9th May 1949, when he formally assumed charge of his new office. The organization of the Commission's Secretariat and the recruitment of such essential nuclear staff as would enable the Secretariat to function took up the best part of May. The full complement of staff was not. however, recruited till the end of June. As the Commission's work progressed, the establishment was gradually

reduced and by the time the examination of witnesses was concluded, its strength had been brought down very considerably.

Questionnaire

4. A draft questionnaire, drawn up by the Member-Secretary, in consultation with the Chairman, was circulated to the members in the beginning of June and considered at the first session of the Commission held in Delhi between the 13th and the 16th June 1949 when it was finally approved with some changes. (The questionnaire is reproduced in Appendix I). As the Commerce Ministry had earlier requested the Commission to let them have the Commission's recommendations on the desirability of undertaking international obligations of the kind involved in the General Agreement on Tariffs and Trade and the Charter of the International Trade Organization in advance of the main report and not later than the 15th August 1949, the Commission considered it necessary to divide its questionnaire into two parts—Part I covering all subjects included in the terms of reference except the item relating to the General Agreement on Tariffs and Trade and the Charter of the International Trade Organization, which was dealt with exclusively in Part II. Releasing the questionnaire on the 25th June 1949, the Commission invited replies to Part II by the 25th July and to Part I by the 25th August.

The questionnaire was circulated to all State Governments, important Chambers of Commerce, Industrial and Commercial Associations, Universities, prominent individuals well qualified to speak on the problems of industry and trade and to all Members of Parliament. At the same time the fullest publicity was given to the questionnaire and a general invitation was issued to individuals and associations to represent their views if they so desired.

In deference to requests received from many correspondents, the dates originally fixed for the submission of replies were extended to the 30th September but a further extension upto the middle of October had to be given to several important Chambers and Associations.

Meanwhile the Ministry of Commerce informed the Commission that the urgency for an advance report on item (3) of its terms of reference had disappeared. The Commission thereupon decided not to submit any interim report on this item.

Examination of witnesses and Informal Talks

5. While replies to the questionnaire were being awaited, the Secretariat was engaged in collecting information and preparing notes and memoranda on a variety of subjects connected with the enquiry. By the beginning of November, this preliminary work was well advanced and we were also ready to undertake tours to different centres. Between the end of November 1949 and the end of February 1950, we visited Banaras, Lucknow, Kanpur, Calcutta, Madras, Bangalore, Cochin, Nagpur, Ahmedabad and Bombay. A list of the witnesses examined at these centres is given in Appendix II. In the States we visited, we had an opportunity of discussing some of the problems before us with the Governors, Chief Ministers and in some places with the Ministers in charge of Finance, Agriculture, Industry and Labour. In the session held in New Delhi at the end of February 1950 we examined the representatives of several Ministries. We also had the benefit in New Delhi of informal consultations with the Hon'ble Ministers in charge of Finance, Industry and Supply, Agriculture and Labour. We met to consider our draft Report in Bombay between the 15th and the 25th May. The Report was finally signed on the 25th afternoon.

In response to our invitations, we received a very large volume of evidence. Replies to our questionnaire were received from 120 associations and individuals and notes and memoranda were received from another 64. As Appendix II will show, the number of witnesses examined was, however, much larger. We wish to convey our thanks to all those who replied to our questionnaire and assisted us with their notes and memoranda. We can well appreciate the time and thought which they must have devoted to this work and we were greatly benefited by the views expressed by our witnesses and the opportunities that we had of discussing our problems with them in course of their oral examination. The evidence tendered to us represented varied interests. Although the bulk of it came naturally from industrial and commercial interests, we received much useful information from organizations representing the interests of labour and consumers. Agricultural interests were generally represented by State Ministers and State officials, but some of the replies from trade and industrial interests also contained valuable suggestions on agricultural production and development. The opening sections of our questionnaire had dealt with some basic

questions relating to agriculture and cottage and small-scale industries and we were happy to notice that the fundamental nature of these issues was recognized by the official witnesses and by the representatives of trade and industry whom we had the opportunity of examining. Our tours and local investigations brought us in contact with a fully representative cross-section of informed public opinion and we hope our findings will show that while we have not overlooked the interests of any particular section we have been influenced by a balanced consideration of what the national interest demands.

Scheme of the Report

6. It will be useful if we indicate at this stage the scheme of our Report. Its structure follows closely the main heads of our terms of reference. Broadly speaking, these comprise two sets of issues—some specific, others general. The specific issues consist of—

(a) an appraisal of the past policy of protection;

(b) review of the effects of protective tariffs and other measures of assistance on some of the major protected industries;

(c) an assessment of the provisions of the General Agreement on Tariffs and Trade and of the Charter of the International Trade Organization;

(d) examination of the Indo-British Trade Agreement of 1939.

The general issue is covered by item (2) of our terms of reference.

It is this general issue that constitutes our principal term of reference, and according to our appreciation of the problem the other specific issues are ancillary to the consideration of this basic issue. If we may anticipate the elucidation of our general approach to the problem, our entire outlook is based on the fundamental shift in thought that has taken place in recent years on the subject of protection in relation to a country's industrial development. The emphasis has been now transferred from the negative idea of safeguards against foreign competition to the positive conception of the fullest utilization of our resources: and as we read our principal term of reference it seems to us to reflect this change in thought. It follows that a full and adequate examination of the problems underlying this basic issue can be undertaken only against the wider background of India's economic policy. As we

propose to develop this theme at some length in Chapter II, we do not consider it necessary to pursue the argument further except to say that the practical implications of this changed attitude towards the policy of protection were emphasized time and again by the witnesses whom we examined. As an illustration of the views of the mercantile and industrial community we quote only a few sentences from the Memorandum submitted to us by the Federation of Indian Chambers of Commerce and Industry:—

> "The Committee attach very great importance to this question (the terms of reference) as the future commercial policy of India can best be considered only as an aspect of a wider and (more) comprehensive economic policy which is directed to the building up of an expanding and stable economy. In the opinion of the Committee the most appropriate tariff and commercial policy cannot be applied piecemeal in a haphazard fashion......the Committee, therefore, submit that the Fiscal Commission must concern itself with the basic issue as to what Government should do to create a suitable......industrial environment."

7. Our Report, therefore, begins with a statement of the fundamental economic objectives to which India's future fiscal policy must be integrally related (*Chapter II*). In the next section of our Report, Book II, we undertake a review of the working of the past policy of protection against the background of the changes in the economic situation which have taken place since the Indian Fiscal Commission's Report of 1921-22. The first Chapter of this Book, *Chapter III,* therefore, attempts a survey of the "Economic Background". In *Chapter IV* we analyse the past tariff policy. *Chapter V* follows with an analysis of the effects of this policy on the growth and development of protected industries in India. In *Chapter VI* an attempt is made to assess the results of the protectionist policy followed between 1923 and 1939 and again between 1945 and 1949.

The next section of the Report, Book III, deals with the patterns of economic development. The first Chapter of this Book. *Chapter VII* attempts to place the agricultural problem in its proper perspective, in relation to developments in the other sectors of the economy. *Chapter VIII* discusses the role of cottage and small-scale industries in the economic development of the country. *Chapter IX* attempts to indicate the pattern for development of large-scale industries while *Chapter X* sets out the problems

of foreign trade that need integration with the pattern of industrial development. *Chapter XI* brings this section to a close with an analysis of State policy and the role of the State in the development of these patterns.

In the next section of the Report, Book IV, we deal with problems of fiscal policy in relation to industrial development. The first Chapter of this section, *Chapter XII* attempts to evolve principles of protection consistent with our approach to this problem as indicated in Chapter II and to examine issues of protectionist policy. *Chapter XIII* deals with the Forms and Methods of Protection. In *Chapter XIV* the obligations of protected industries are considered.

The next section of the Report, Book V, deals with other factors relating to industrial development which are non-fiscal in character. In the first Chapter of this Book, *Chapter XV,* the problems connected with the development of capital resources are examined. In *Chapter XVI,* the problems of industrial management including research and standardisation are discussed. In *Chapter XVII*, the issues arising out of efficiency of labour in relation to industrial development are considered. In *Chapter XVIII* some problems relating to the more important of tertiary industries and the ancillary services connected with the industrial development are examined.

The next section of the Report, Book VI, deals with the organization and machinery needed to implement the scheme of protection and assistance to industries outlined in the previous sections. The first Chapter of this section, *Chapter XIX*, deals with the machinery for economic planning and co-ordination of the economic activities of Government, for it is only against their background that the tariff-making machinery can effectively function. In *Chapter XX*, the outlines of an organization for the proposed Tariff Commission are indicated.

In the next section, Book VII, problems of fiscal policy in relation to international obligations specially referred to the Commission are examined. In the first Chapter of this Section, *Chapter XXI,* the provisions of the Charter for the International Trade Organisation are analysed with reference to their effects on the industrial development of the country. In *Chapter XXII,* we deal with the provisions of the General Agreement on Tariffs and Trade in their bearing on the country's foreign trade. *Chapter XXIII* deals with the terms of the Indo-British Trade Agreement, 1939, in its relation to the country's tariff policy. In the

concluding section, Book VIII, we end with some observations on the objectives and priorities of a short-term economic policy and its effective implementation (*Chapter XXIV*). The next Chapter of the Book contains a summary of our findings and recommendations.

Acknowledgement of services

8. Before we pass on to the next Chapter, we wish to express our thanks to the State Governments and other authorities who arranged for our accommodation during our tours and to those Government Departments at the Centre and in the States which supplied us with facts and information bearing on our enquiry.

We also desire to record our warm appreciation of the help we have received from the Member-Secretary, Mr. D. L. Mazumdar. Our enquiry covers a wide field and the arduous task of organising the arrangements needed for its efficient conduct fell to him. The care and thoroughness with which Mr. Mazumdar has carried out his duties has considerably lightened the labours of the Commission. Mr. Mazumdar has also given us invaluable assistance in the preparation of this Report. The Commission has greatly benefited by the special knowledge he possesses of the problems on which we have to report and generally of the economic problems of the country.

We also desire to acknowledge the assistance we have received from the Deputy Secretary, Dr. Rama Varma. His experience as Deputy Secretary to the Tariff Board has been of much value to us.

Our research workers and the Secretariat staff have also performed their duties in an efficient manner. We would like to single out Mr. R. Gautam, Officer on Special Duty, who was in charge of the arrangements for our tours and meetings.

CHAPTER II

FUNDAMENTAL OBJECTIVES OF AN ECONOMIC POLICY

Rationale Protection

9. We have referred in the previous chapter to the change that has taken place in economic thinking on the subject of protection of industries. The old controversy between "free trade" and "protection" has lost its significance. The approach is now empirical: a policy of protection is judged entirely by its effects in the broad context of economic development in a country situated in a particular economic environment. This view places the rationale of protection in the proper perspective of "developmental protection", the object of which is not merely to foster particular branches of production but to induce such a change in the demographic and industrial structure as will transform the economic environment and raise the level of productivity in the country as a whole. In such a perspective protection becomes a means to an end—which is national welfare. It is only in this perspective that a country can reckon the cost of protection as a social cost which must be commensurate with maximum social advantage.

The Government of India's resolution on industrial policy dated the 6th of April 1948 also emphasises this conception—that tariff policies and similar forms of assistance should be closely related to, and form an integral part of, a "dynamic national policy directed to continuous increase in production". Our duty is thus *inter alia* to report on the role to be assigned to tariff and other forms of assistance in such a policy.

Economic Objectives in the Constitution

10. It is obvious that a policy for economic development of India should conform to the "objectives" laid down in the Constitution. These are contained in the "Directive principles of State policy" which, according to article 37, are "fundamental in the governance of the country, though not enforceable by any court".

Article 38 describes the social order which is sought to be secured. The State is directed "to promote the welfare of the people by securing and protecting as effectively

as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life". To achieve such an order it is enjoined in article 39 that the State "shall direct its policy towards securing:—

(a) "that the citizens, men and women equally, have the right to an adequate means of livelihood;

(b) "that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

(c) "that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;

* * *

(e) "that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength;

(f) "that children and youth are protected against exploitation and against moral and material abandonment."

The further implications of this policy are brought out in articles 41, 42 and 43. Under article 41, the State shall "within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want". Article 42 requires that the State shall "make provision for securing just and humane conditions of work and for maternity relief". Article 43 contains a further elaboration of the same ideal. Under it the State shall "endeavour to secure, by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities".

On the economic side among the primary duties of the State is "the raising of the level of nutrition and the standard of living of its people and the improvement of public health" (Article 47). Article 48 directs that the State "shall endeavour to organise agriculture and animal husbandry on modern and scientific lines" and Article 43 that "the State shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas".

Statement on Industrial policy, 1948

11. The broad policies embodied in these "Directive principles" are emphasised in the resolution on industrial policy issued by the Government of India in April 1948 (*vide* Appendix III) which we summarise below:—

Firstly, the resolution takes as its starting point the nation's resolve "to establish a social order where justice and equality of opportunity shall be assured to all people".

Secondly, it lays down that all efforts should be directed to securing an appreciable rise in the standard of living within the shortest possible time. To quote from the resolution:—

> "The immediate objective is to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community.
>
> * * *
>
> "A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial; and in particular, on the production of capital equipment of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange".

Thirdly, the resolution contemplates a mixed economy. There is a sphere reserved for private enterprise and another for public ownership. The Government of India

> "feel... ... ... that for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play.
>
> "On these considerations the Government have decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further, in any emergency, the Government would always have the power to take over any industry vital for

national defence. In the case of the following industries, the State—which in this context, includes Central, Provincial and State Governments and other Public Authorities like Municipal Corporations—will be exclusively responsible for where, in the national interest, the State itself finds it necessary to secure the co-operation of private enterprise subject to such control and regulation as the Central Government may prescribe:

(1) Coal (the Indian Coalfields Committee's proposals will be generally followed).

(2) Iron and Steel.

(3) Aircraft Manufacture.

(4) Ship-building.

(5) Manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets.

(6) Minerals Oils.

"While the inherent right of the State to acquire any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertakings in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion. At the end of this period; the whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the State should acquire any unit, the fundamental rights guaranteed by the Constitution will be observed and compensation will be awarded on a fair and equitable basis.

'Management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this.

"The rest of the industrial field will normally be open to private enterprise, individual as well as co-operative. The State will also progressively participate in this field; nor will it hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory".

There is besides a list of 18 industries which will be subject to "Central regulation and control" inasmuch as "their locations must be governed by economic factors of all-India import" or "they require considerable investment and a high degree of technical skill".

Fourthly, the resolution emphasises the very important role cottage and small-scale industries have in the national economy "offering as they do scope for individual, village or co-operative enterprise and means for the rehabilitation of displaced persons" and the desirability of decentralising larger industries wherever conditions permit.

Fifthly, the resolution enunciates a policy of social justice, fair labour conditions as an essential basis for harmonious relations between management and labour. It says: —

> "The Government.........recognise that their objective, *viz.,* securing the maximum increase in production, will not be realised merely by prescribing the respective spheres of the State and of private enterprise in industry: it is equally essential to ensure the fullest co-operation between labour and management and the maintenance of stable and friendly relations between them. A resolution on this subject was unanimously passed by the Industries Conference which was held in December last. Amongst other things, the Resolution states: —
>
> "......The system of remuneration to capital as well as labour must be so devised that, while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking."
>
> "Government accept this Resolution. They also consider that labour's share of the profits should be on a sliding scale normally varying with production. They propose in addition to the over-all regulation of industry by the State to establish machinery for advising on fair wages, fair remuneration for capital, and conditions of labour. They will also take steps to associate labour in all matters concerning industrial production." The machinery contemplated for this is also set out.

Sixthly, reference is made to the tariff policy of Government. This "will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer".

Seventhly, the policy in regard to foreign capital is explained in the following terms:—

> "The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this purpose. Such legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that, as a rule, the major interest in ownership, and effective control, should always be in Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon."

This has been further elucidated by the Prime Minister in his statement in Parliament on April 6, 1949.*

Fundamental Objectives of Economic Policy

12. We have set out the articles of the Constitution and the pronouncements in the Government of India's resolution relating to economic objectives as they embody decisions reached after lengthy discussions in Parliament and outside and are "fundamental in the governance" of the country and all policies should be shaped with full advertence to them. Recently, there have been useful discussions in the Economic and Social Council and bodies set up by it on the special problems presented by "underdeveloped" countries. Again, in London, Geneva and Havana the same subject figured prominently in the talks relating to the International Trade Organisation. All these afford evidence of the great awakening that has taken place in the countries usually called "backward" and generally speaking of a realisation on the part of the United Nations and its allied organisations of the need, in the interests of world peace, of improvement in the standards of living in such countries. The broad principles emerging from these discussions conform in essentials to the objectives placed before the country in the Constitution and in

*The Prime Minister's statement is given in Appendix IV.

the Statement on Industrial Policy. In the light of all these, the fundamental aims which economic policy in India should have in view may be summed up as follows:

Firstly, "avoidance of unemployment or under-employment through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of a large and steadily growing volume of production and effective demand for goods and services". These words taken from the Havana Charter define the implications for 'undeveloped areas' of the policy of full employment as applied to highly developed countries.

Secondly, "sound, efficient and fuller utilisation of natural resources".

Thirdly, "steady and progressive increase in standards of productivity, elimination of sub-standard conditions of labour and the creation of incentives that will stimulate enterprise".*

Fourthly, special measures for the development of agriculture including animal husbandry on modern scientific lines for the production of food and of essential raw materials for industries (cotton, jute, etc.); for the establishment and development of industries for the processing of domestic primary commodities.

Fifthly, special measures for the development of cottage industries and small-scale industries on co-operative or individual lines.

Sixthly, ensuring that large-scale industrialisation occupies a prominent place in any programme of development "as capital equipment and modern techniques can make a notable contribution to increases in production, productivity and standards of living"*—in this field a 'mixed economy' is indicated.

Seventhly, "the introduction of a diversified economy which would lead to a better utilisation of the diversified talents of the community and its diversified human and natural resources and would enable the population to lead a fuller and a richer life than would otherwise be unattainable".

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*Report of Sub Commission on Economic Development—U. N. Economic and Employment Commission.

Need for a Policy for Population in Economic Development

13. When stating these objectives, we are conscious of two important governing factors. The first is the population trend. It is clear that most economic questions facing the country centre round the first of the aims we have set out, *viz.*, "avoidance of unemployment or under-employment through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work............". Plans with this end in view can be framed with a sufficient degree of knowledge only if the country has before it all the facts connected with the "population" question. In our view, it would be useful to set up a small expert body to review the data available, especially as, owing to limitations imposed by conditions then existing, essential information was not collected and tabulated at the 1941 census and to report what "basic" information is lacking so that an effort may be made to obtain as much of this as possible during the next census and in the course of the sample surveys undertaken in connection with studies on national income now in progress. This will enable the Governments to study future trends as a foundation for economic plans. We find different views have been expressed on the probable rate of population growth in India in future years. One school of thought holds that there is no reason why the present rate of increase should not continue indefinitely. Another school is inclined to think that India may pass through a phase like that of Japan in 1920's and 1930's when birth and death rates declined and there was a fall in the net reproduction rate. All these are, however, based on insufficient material. We consider that the whole subject of population trends should be subjected to a close objective study.

Popular enthusiasm for Economic Development

14. The second factor is the urge for progress felt by the nation as a whole. Economic development on the scale needed to secure an appreciable rise in the standard of living within the shortest possible time after offsetting the effects of the growth in population that has occurred in the meantime, cannot be achieved unless the enthusiasm of the people is enlisted in the formulation of the plans and in their execution. Only thus can the country be induced to make "the integrated effort over the whole field of national activity" demanded of it.

BOOK II

A HISTORICAL RETROSPECT

In this Book we propose to deal with the first item in our terms of reference, *viz.*, "To examine, in consultation with the interests concerned, the working of the policy of the Government of India with regard to the protection of industries since 1922 when the last Fiscal Commission reported". We shall begin with a rapid survey of the principal changes in the economic scene since 1923 in Chapter III; for it is only against such a background that the effects of past policy can be adequately assessed. In Chapter IV, we shall analyse the tariff policy of the past, and also review the working of that policy both in the pre-war and post-war periods. In Chapter V, we shall examine the effects of protective duties on the development of some major industries which were protected, *e.g.* Steel, Paper, Sugar, Cotton-textiles etc. We shall conclude in Chapter VI with an assessment of the over-all effects of past policy on the economy of the country as a whole.

CHAPTER III

CHANGES IN INDIA'S ECONOMIC BACKGROUND SINCE 1923

SECTION A

Historical Perspective

Controlling Factors in Indian Economy since 1923

15. Since the last Fiscal Commission reported in 1922, there have been changes in certain sectors of India's economy but the basic dependence of the population on agriculture remains substantially unaffected. The growing pressure of population on land, primitive methods of cultivation and low yield per acre still continue to be the intractable problems of agriculture. In the industrial and tertiary sectors important changes have taken place, but they have not affected the country's economy to any major extent. It is not proposed to recite in this Chapter the economic annals of the twenties and the thirties. We shall only set out some outstanding features that highlight the development in the different sectors of the economy, and broadly assess the deficiencies and the present position of the country's economy in each of these sectors. As a preliminary, we review briefly the following factors which have influenced India's economy since the 1920's:—

(a) the Great Depression of 1929-33, (b) the Separation of Burma, (c) World War II, and (d) the Partition of India, 1947.

(a) The Great Depression, 1929-33

16. Agrarian economies feel the impact of a business cycle, with its essentially industrial origin, principally through their trade relations with the industrialised countries. The depression hit these economies specially hard because—(a) for some years even before the depression they were in difficulties due to low prices and inelastic costs, and, (b) the depression of 1929-33 was more acute and protracted than its predecessors. During the depression agricultural prices and incomes fell seriously. Harvest prices, which are more relevant for considering the

income of primary producers, fell even more drastically than wholesale prices, on account of these latter including handling and other charges in which there was no proportionate fall. The output of minerals like coal, iron ore and manganese fell steeply. Manufacturing activity was then heavily weighted with textiles, cotton and jute, and iron and steel. The production of cotton textiles and iron and steel industries which were protected, however, registered a slight increase except for an initial set-back immediately after the on-set of the depression. The jute industry suffered heavily with the fall in world demand.

17. The depression revealed many weaknesses in India's economy, some of them arising from the complex interaction of a medieval barter economy on a modern industrial system. The problems posed by the depression may be grouped as internal and external. The former arose out of the fall in incomes and Government revenues. Farm output was notoriously inelastic to price and income changes and showed only a few instances of adaptation *e.g.*, from the late 1920's more groundnuts were produced and exported, and the acreage devoted to raw cotton tended to concentrate on better areas; nevertheless, uneconomic holdings remained under the plough over large tracts in C.P. and Berar. The fall in Burma's rice exports seriously jeopardised its economy. No wage and cost statistics are available to indicate the variation of costs in the primary sector. Over large areas farm wages are a compound of barter and money wages; it is generally held that wages also fell in sympathy with prices.

The external problems relate to the country's balance of payments. *First,* even before the depression India's annual interest charges and non-commercial remittances were considerably larger than the annual borrowings. When exports fell sharply from 1929 it was a serious problem to effect these remittances. Gold exports helped in the process. *Secondly,* the adverse terms of trade increased the difficulty still further. *Lastly,* the break-up of the system of multi-lateral clearing further aggravated these difficulties. Till the late 1920's, India could effect its remittances to the U.K. through the surplus in its trade account with Europe, the Far East and the U.S.A. From this time, however, the trade of the Commonwealth countries tended to concentrate within them. The

Import Duties Act 1932, the Ottawa Preferences, the exchange stability in the Commonwealth countries after 1931 and the comparative freedom of intra-Commonwealth trade from various restraints were some of the factors which increased trade between the members of the Commonwealth. In these circumstances, foreign countries found it difficult to run deficits with them and had to seek surplus balances with the U.K. directly to meet their obligations.

18. The Government took little action to counteract the effects of the depression. The exchange and monetary system then prevailing exposed prices and incomes to its full blast; only in March 1931 a temporary import duty on wheat was levied and in 1935 on broken rice. Perhaps the sole extenuating factor was the Ottawa Preferrence in the U.K. in 1932. In 1933-34 the textile agreements with the U.K. and Japan improved the prospects for raw cotton.

(b) The Separation of Burma, 1937

19. The country had hardly recovered from the depression when the separation of Burma on 1st April 1937 inflicted another serious injury to its external balance. India's export surpluses in 1937-38 and 1938-39 were only Rs. 7 and Rs. 10 crores respectively. If Burma had remained part of India, its export surplus would have been of the order of Rs. 43 crores in either of these years.

(c) World War II, 1939-45

20. The war gave a great impetus to the development of industries.* Industries which were already in existence worked to full capacity and often in more shifts than one. New plants were added in some cases and a few basic industries were established. A rapid expansion of small-scale industries all over the country created new sources of supply; a variety of goods like cutlery, skewers, hand tools, taps, drains and camouflage nets and many other consumer and intermediary goods were manufactured. No precise information is available regarding the output of these small units, some of which have now disappeared. The trend of industrial activity in India during the war as indicated by the major large-scale industries is given in table I.

*The agricultural sector is discussed in paragraph 31.

TABLE I
Interim Index of Industrial Production
1937=100

	General Index	Cotton Textiles	Jute	Steel	Chemicals	Paper	Cement	Matches	Paints	Sugar	Wheat Flour	Distilleries and Breweries	Petrol
1938	**105 4**	109·0	98·3	108·0	84·4	121·6	124·8	85·1	130·1	88·7	100·6	102·6	123·0
1939	**102 7**	104·3	92·4	125·0	103·9	135·1	152·9	87·0	147·1	62·5	100·0	100·0	120·5
1940	**109 9**	103 6	96·1	125·5	133·3	169·7	152·1	90·0	165·6	106·0	97·8	114·5	157·1
1941	**117 8**	114·8	92·4	131·1	153·2	185·4	185·8	76·4	241·9	108·2	114·0	140·5	174·9
1942	**111·2**	102·0	99·5	136·7	138·7	180·9	194·5	60·0	233·5	78·4	90·3	144·1	168·3
1943	**117 0**	117·0	84·4	141 5	138·6	179·2	188·4	68·8	251·3	95·3	70·3	176·0	200·0
1944	**117·0**	122·9	86·7	139·6	126·3	192·7	182·1	68·1	259·3	97·1	89·2	197·8	197·7
1945	**120 0**	120·0	84 4	142 9	134·1	196·5	196·5	90·2	232·4	85·5	103·5	220·4	164·8
1946	**109·0**	101·9	84·6	130 0	111·2	193·4	181·1	90·5	177·8	80·5	64·8	211·7	134·7

SOURCE :—*Office of the Economic Adviser to the Government of India.*

21. Some of the important new industries that started production for the first time during World War II were (a) ferro-alloys like ferro-silicon and ferro-manganese, (b) non-ferrous metals and metal fabricating industries like copper, copper sheets, wires and cables etc., (c) mechanical industries like diesel engines, pumps, bicycles and sewing machines, machine tools and cutting tools, (d) a few items of textile, tea and oil processing machinery, and (e) chemicals like caustic soda, chlorine, superphosphates, photographic chemicals and bichromates. Some of these new articles are, however, being produced in very small quantities. The Tariff Board investigated the claims of many of them for protection which has been granted in several cases.

22. As against this growth of new industries over the last decade there have been important factors on the debit side as a direct consequence of the conditions created by the war. The capital equipment of the pre-war industries was strained to the maximum during the six years of the war. Many factories were working extra shifts and there was continuous deterioration of plant and machinery, due to want of proper maintenance and replacement. This position still continues, and at the present level of costs, most of the industries find it difficult to undertake large-scale replacement of worn out plant and machinery.

The wear and tear of capital equipment in war-time was one of the results of the inflationary methods which characterised the war economy of India. War production had to offer high profits in order to mobilise the limited resources of a country with a low economic potential to the maximum possible extent. This was clearly inflationary in its effects. High-cost production, based on maximum use of capital equipment, high wages and improvised methods had left a legacy of inflation which has not yet exhausted itself. In this respect, India's economy differed from that of U.S.A., Australia, Canada or other countries in which the existing economy could be more easily geared to the war effort.

Partition, 1947

23. Large-scale international migration of ethnic groups especially if it is unplanned greatly dislocates the economy of a country. In India and Pakistan such movements in 1947 and 1948 were effected under violent pressure. As a result, on both sides considerable changes in occupational pattern occurred. According to the Census of India, 1941, the distribution of population between the Indian Union

and Pakistan was 82% and 18% respectively. The exact proportions to-day are, however, not known.

24. Even before the partition, India was deficit in food-grains. The deficiency has now been aggravated. With 82% of the population of undivided India, the Union produces only 68% and 65% of the total pre-partition yield of the rice and wheat crops. With all the jute mills within its borders the Union was left with only a quarter of the jute acreage in undivided India. Similarly with 99% of the cotton mills of undivided India in the Union, it is dependent on Pakistan for a little less than a million bales of long and medium staple cotton. The partition has deprived the Union of many major irrigation works in the West Punjab and Sind; while 45·2 per cent. of the net sown area is served by irrigation works in Pakistan, the corresponding percentage in the Union is 18·9 per cent.

25. The following table shows the changes in the population, agriculture and mineral resources of India as the result of partition.

TABLE 2

Percentage share of India and Pakistan in total Area, Population and Primary Production of undivided India.

	Indian Union	Pakistan
AREA	77	23
POPULATION—		
Total	82	18
Urban	89	11
Rural	81	19
LAND UTILIZATION		
Area under Forests	94	6
Net area sown	84	16
Net irrigated area	69	31
PRODUCTION (*Agriculture*)—		
Principal Foodgrains	75	25
Sugarcane	84	16
Principal Oilseeds	55	45
Cotton	60	40
Raw jute	19	81
PRODUCTION (*Plantation*)—		
Tea	85	15
Coffee	100	*Nil*
Tobacco	78	22
PRODUCTION (*Minerals*)	97	3

SOURCE:—*Based on data compiled by the Census Commissioner, Ministry of Home Affairs; Directorate of Economics and Statistics, Ministry of Agriculture, and Bureau of Mines, Ministry of Works, Mines and Power, Government of India.*

26. Except for some potential oil producing sources in the Indus Valley and East Bengal; salt and gypsum of the Salt Range; coal in West Punjab, Sind and Baluchistan; small quantities of chromite and sulphur in Baluchistan; and low grade antimony ore in Chitral and high-grade limestone of the Salt Range and North-West India; the Union has lost little of the mineral resources of undivided India. The total value of mineral production of the area lost to India in 1947 is about 3% of the total in undivided India. The loss of the ore deposits of gypsum and rock salt (for heavy chemical industries) is a handicap to India. At present India produces only 12 per cent. of its present consumption of oil and it is difficult to say how far local resources can be improved.

27. The table below shows the percentage distribution of industrial establishments between India and Pakistan:—

TABLE 3

Percentage Distribution of large Industrial Establishments between India and Pakistan.

	Establishments		Workers Employed	
	Share of Indian Union (*Per cent*)	Share of Pakistan (*Per cent*)	Share of Indian Union (*Per cent*)	Share of Pakistan (*Per cent*)
All Industries	91	9	93	7
Cotton Textile (*a*)	98	2	98	2
Jute mills	100	*Nil*	100	*Nil*
Engineering	85	15	88	12
Iron and Steel (*b*)	100	*Nil*	100	*Nil*
Sugar factories	93	7	96	4
Chemicals	93	7	95	5
Matches	97	3	93	7
Paper mills (*c*)	100	*Nil*	100	*Nil*
Cement (*d*)	90	10	92	8
Glass	98	2	98	2
Skins and Hides	97	3	95	5

(a) Spinning, weaving and other factories. (b) Smelting and steel rolling mills. (c) Including paper pulp. (d) Including lime and potteries.

SOURCE:—*Based on data relating to the calendar year 1943, compiled by the Director General of Commercial Intelligence and Statistics, Government of India. Detailed statistics for later years are not available. These statistics relate to all factories which come under the operation of the Factories Act (XXV of 1934), as amended upto 1943 (excepting those in which the average number of workers employed daily is less than twenty) and also those establishments in Indian States which are considered to be of sufficient industrial importance, in so far as it has been possible to collect information.*

For some consumer goods industries like textiles, sugar, paper and paste boards, matches, edible oil, etc., India had a large market in the areas included in Pakistan. The position of India in regard to the two industrial raw materials, raw cotton and jute is particularly unsatisfactory. The Government have launched on schemes to increase the jute acreage in the Union and similar schemes for raw cotton are also under way.

SECTION B

The Present Position

28. Having considered the principal changes brought about by the historical circumstances that influenced the course of the country's economic development during the last thirty years, we shall proceed to examine in this section some of the basic factors in India's economy.

Population and National Income

29. The population of the Indian Union in 1948 is estimated at 337 millions. Between 1921-41 it increased by about 83 millions. During the decade 1931-41 the rate of increase was 1·3 per cent. a year.

To understand the full significance of the size and the rate of growth of India's population, these figures should be related to *per capita* income in the country. Various estimates of the national income have appeared recently. One general conclusion that can be drawn from these estimates is that the *per capita* income in India is around Rs. 200 as compared with Rs. 7,300 in U.S.A.,* and over Rs. 2,600 in U.K. Even in a low income country like Mexico the *per capita* income is three times that of India. This shows that the fundamental economic problem is to increase the level of the income of the people.

In the absence of adequate relevant data it is difficult to hazard any views on the probable trends of fertility and mortality rates and the rate of growth of the population. It will, however, seem reasonable to expect that in the next few years between 3 to 3½ million people will be added to the population every year as a result of the excess of births over deaths. We mention these figures only to emphasise the point we make in our Report that unless the tempo of economic development is sufficiently high its effect on the level of *per capita* income will be negligible and no appreciable increase in the standard of living of the people will be achieved.

*At the current exchange rate.

Position of Indian Agriculture

30. Agriculture, the predominant occupation of 67% of India's population, is one of the more disquieting sectors of its economy. In the last few decades, it has remained more or less stagnant, and at points there is a tendency towards deterioration. In the forty years, 1901-41, the total sown area increased only from 220·4 million acres to 244·7 million acres; part of this increase reflects improvement in reporting (the latter figure is exclusive of the sown area in Burma). The distribution between food and non-food crops changed slightly, from 85% and 15% in 1901-02 to 80% and 20% in 1940-41.

The two most important food crops of India are rice and wheat. In 1920-25 the acreages were 69·4 and 29·6 millions. In 1935-40 they were 72·7 and 34·4 millions. The next important crop is cotton which accounted for 22·1 million acres in 1920-25 and 24·2 millions in 1935-40. Significant increases in acreage were recorded by the five important oilseeds *viz.*, linseed, rape and mustard, sesamum, castor and groundnuts; the combined acreage in 1920-25 was 16·6 millions and in 1935-40 22·4 millions, the largest increase being under groundnuts and to a lesser extent under linseed. The area under tea increased from 0·71 million acres in 1920-25 to 0·83 million acres in 1935-40. Apart from the expansion of agriculture lagging behind the increase in population, the yield per acre of most crops grown in India is considerably less than in other countries: for example, the yield of wheat is a little over a third of that in Pakistan and about a quarter of that in U.S.; that of rice is half of that in U.S. and a third of that in Japan; that of maize is somewhat over a quarter of U.S. and half of China; that of sugar is a little over half of the small holdings and a quarter of the estates of Java; that of cotton is less than a third of U.S. and half of Pakistan and that of groundnuts is half of that of China. An important cause of this low productivity is the dependence of India's agriculture on rainfall. The area under irrigation in British India (excluding Burma) increased from only 47·8 million acres in 1920-21 to 50·2 million acres in 1936-37 and the area irrigated as a percentage of the net sown area fell from *24 to 23*. During the same period the proportion in the Indian States remained unchanged at 15%. Apart from the shortage and abnormal distribution of rainfall, floods, hail-storms, frosts and other vagaries of seasons also affect India's agriculture. Some of the other causes of the

low yield are—uneconomic units of cultivation, low equipment per acre, the use of bad seed, lack of good fertilisers, and often the lack of proper incentives for improvement. A statement showing the yield per acre of some major agricultural crops is given below:—

TABLE 4

Average Yield of Principal Crops in India.
Lbs. per acre

Year	Rice	Wheat	Sugar-cane	Cotton	Tobacco	Linseed	Rape and Mustard
1921-22*	957	845	2,820	104	NA	402	519
1931-32*	988	811	2,956	110	1,179	403	539
1939-40†	768	741	2,787	88	859	292	427
1945-46†	717	580	3,109	81	672	259	374

*British India only.
†Figures relate to the Indian Union (States only)

SOURCES:—(a) *Agricultural Statistics of India, Volume I.* (b) *Estimates of Area and Yield of Principal Crops in India.*

31. During the war, India's agriculture responded little to the incentive of high prices and a guaranteed internal market. Output increased very little, and as a result, prices soared, especially in the latter part of the war when the output of many foodgrains was adversely affected by seasonal conditions. The table below shows these changes during the war years.

TABLE 5

Index Numbers of Agricultural Production in Indian Union
(Quinquennium 1934-35 *to* 1938-39=100)

Year	General Index*	Foodgrains Groups‡	Non-Food-grains Group**
1939-40	99·2	99·5	98·7
1940-41	101·4	95·7	114·0
1941-42	94·3	93·9	95·2
1942-43	100·4	102·9	95·5
1943-44	105·7	105·0	107·1
1944-45	100·2	100·4	95·8
1945-46	92·6	92·5	92·7

*Combined index for 29 principal agricultural crops in the Indian Union.
‡Rice, wheat, jowar, bajra, maize, ragi, barley, and gram.
**Sugarcane, sesamum, groundnut, rape and mustard, linseed, castor seed, cotton, jute, tea, coffee and tobacco.

SOURCE:—*Directorate of Economics and Statistics, Ministry of Agriculture, Government of India.*

During the war the area under raw cotton and, to some extent jute, was drastically cut down for growing more food. While some of the acreage under jute could be sown to rice, the areas where cotton acreage was curtailed, *e.g.* in C.P. (*viz.*, the acreage under short staple cotton—the cotton for which export markets had been lost during the war years) were ill-suited to produce any but the coarsest food-grains. After the war, the demand for increasing the acreage under cotton and jute increased—particularly after the partition in 1947, when India lost some three-quarters and one quarter of the jute and cotton acreage respectively. Recently the area under jute has shown an encouraging increase but the cotton acreage is still lagging behind.

32. Although no dependable statistics exist, it is generally believed that the agricultural sector accounted for about one half of the total national income of British India in the pre-war years. The war and the partition have resulted in serious sectional price disequilibria and have brought about some changes in the relative importance of agriculture and industry in the national economy, but the proportion of agricultural income to the total national income has perhaps not altered greatly from the pre-war parity. The two important facts with regard to this income are—(a) *per capita* level and (b) its stability. The *per capita* level is lower than in industry by any method of computation. Its stability too is considerably less. The price level of agricultural products that is relevant to this consideration is the level of harvest prices; these prices are not only lower than the wholesale prices in the different markets but suffer from serious seasonal and year to year variations. This instability in the incomes of primary producers introduces an important element of instability into the general economy of the country; the agricultural population still constitutes the largest block of consumers for the products of our established industries which are heavily weighted by relatively simple articles of daily use like textile, soap, sugar, matches, minor implements and instruments.

Mineral Resources

33. Contrary to the general impression, the mineral resources of India are not large for a country of its size and population. Of the minerals, metals and industrial rocks listed in the Mineral Statistics of India, only coal, gold, mica, building materials (including constructional stones, limestone, etc.), salt, petroleum, manganese ore, iron ore, copper ore, and ilmenite are produced in quantities to be of real importance to industry and other sectors of

the economy. Of these, mica, manganese ore and ilmenite are wholly or largely exported.

The separation of Burma from India affected India's resources of non-ferrous metals, as the large mines producing copper, lead, zinc, tungsten, etc., are now in that country. The important industrial non-ferrous metals are either not produced in India at all or their production is insignificant. Less than 12 per cent. of India's requirement of mineral oils is now met by domestic production; the rest being imported. India has, however, adequate resources of industrial clay, bauxite, steatite, chromite, natural abrasives, magnesite, felspar, dolomite phosphate, vanadium, titanium ore, etc., for its immediate and future needs.

TABLE 6

Domestic Production, Imports (Net), and Exports (Net) of some Important Minerals.

Mineral	Unit	Production*	Net Imports (—) Net Exports (+) **
Coal	Mn., tons	30	+1·1
Gold	000, ounces	172	—0·2
Mica	000, cwts.	NA	+336
Building Materials	Rs. lakhs	347	—203
Salt	000, tons	1,540	—292
Petroleum	Mn., gallons	65	—424
Manganese ore	000, tons	451	+309
Iron ore	000, tons	2,498	·1
Copper ore	000, tons	323	NA
Ilmenite	000, tons	253	NA

NA=Not Available.

SOURCES :—*Ministry of Works, Mines and Power ; figures relate to the calendar year, 1947.

**Department of Commercial Intelligence and Statistics, Ministry of Commerce ; figures relate to the financial year 1948-49.

34. The power resources in India are limited to coal, oil and electricity. **Fuel and Power**

India's coal mining is centred mainly in Bihar and West Bengal. The total reserves of coal down to a depth of 2,000 feet are estimated at 65,000 million tons, of which the 'actual reserves' (*i.e.*, those which are proved or considered beyond reasonable doubt to exist) are 4,987 million tons, and the rest are 'probable reserves'. Reserves of good coking coal have been estimated at a little over 1,600 million tons.*

The annual production of petroleum in India before the war was about 80 million gallons from oil fields situated

*The Indian Coalfields Committee (1946) considered that it would be wiser to proceed on the assumption that the reserves of good coking coal may not exceed 700 to 750 million tons.

in Upper Assam and the Punjab. As a consequence of partition the potential oil fields in the North West India and in East Bengal have gone over to Pakistan. The testing of representative groups of structure by boring in Tripura, Cachar and elsewhere will prove the extent to which India's meagre resources of oil can be improved. At present India produces only about 12 per cent. of its requirements of oil from indigenous sources.

Utilization of molasses for production of power alcohol is another source of power. At present India's installed capacity for the production of power alcohol is about 9·5 mn. gallons and the actual production is only 3 mn. gallons per year.

As against relatively meagre resources of coal and oil, India's water-power potential is next only to U.S.S.R., U.S.A., and Canada. Judged by foreign standards, however, the progress of hydro-electric development in India has been far from satisfactory. The total generating capacity of hydro-plants to date is about 0·5 million kW. and the consumption of all kinds of electricity *per capita* is only 9·2 kWh. against 4,000 kWh. in Canada, 3,090 kWh. in Norway, 2,100 kWh. in Sweden, 1,660 kWh. in U.S.A., and 1,944 kWh. in Switzerland.

TABLE 7

Relative Development of Hydro-Electric Power in various Countries of the World

Country	Water power potential *Mn. kW*	Waterpower developed and installed *Mn. kW.*		Water power developed as percentage of potential		*Per capita* consumption of electrical energy (all types) *kW.*
		1920	At present	1920	* At present	
U.S.S.R	100	NA	22·4	NA	22	215*
U.S.A.	45	3·8	14·5	8	34	1,660
Canada	38	2·5	7·7	7	20	4,000
Switzerland	4·5	0·5	2·4	11	67	1,944
Germany	6	0·6	3·2	9	54	1,240
Norway	4·5	0·9	2·4	21	53	3,090
France	9	1·1	3·7	13	42	431
Sweden	7·5	0·8	2·6	11	33	2,100
U.K.	1·5	0·15	0·5	10	31	938
Japan	20	†0·23	5·8	..	30	..
New Zealand	4	0·02	0·5	0·5	13	2,000
Australia	3	0·02	0·3	0·5	9	1,014
India	30-40	0·08	0·5	..	1·5	9·2
China	NA	NA	0·6**	..	..	3·7

*1938 figures †1912 figures **1935 figures

Figures other than those specified in the table generally relate to the period 1942-47.

SOURCE:—Central Board of Irrigation; *Hydro-electric Development in India* 1948.

Another feature of the progress in electrification so far achieved is the fact that most of the existing installations have been planned to satisfy the demands of the urban areas. This will be clear from the following statement giving a summary of towns and villages in India provided with electricity as at the end of 1948 on the basis of population as per 1941 census:—

TABLE 8

Number of Towns and Villages provided with Electricity in Indian Union

Population range	Total number of towns or villages in India (x)	Number of Towns or villages with public electric supply (y)	(y) as per cent of (x)
Over 1,00,000	49	49	100
50,000—1,00,000	87	86	99
20,000—50,000	277	231	83
10,000—20,000	607	225	37
5,000—10,000	2,367	217	9
Below 5,000	5,59,746	1,828	N

N—negligible

SOURCE :—*Central Electricity Commission, Government of India.*

It will be seen that while a number of towns with a population of over 10,000 are served with electricity only 9 per cent. of those with a population between 5,000 and 10,000 are having its benefits and in the case of towns with a population below 5,000 a negligible number of them have got electric supply.

A large number of power schemes is now either under active consideration or under execution by the Central and State Governments in the country. It is expected that they will be completed before 1958. On this basis the installed generating capacity of India may be augmented as follows:

	K.W.
Installed capacity in 1948	1,422,000
Capacity expected at the end of 1953	2,800,000
Capacity expected at the end of 1958	4,516,000

Roughly speaking, these figures indicate that the aggregate capacity of generating plants in India may almost be trebled over the next decade showing an annual increase of about 20 per cent. over the 1948 figure.

Development of the proposed power projects will require the use of heavy electrical equipment like hydraulic gates, valves, pipes, etc., hydro-electric generating units, transformers (power and distribution), switchgear and control panels, general purpose motors, insulating materials required for electrical equipment manufacturers. These will, either have to be manufactured in the country or partly manufactured here and partly imported from abroad. At present very few of these items are produced in India. It has been estimated that if Rs. 500 crores is spent on the execution of the power projects now under execution or contemplation, a much larger sum would be needed for installation of domestic or industrial equipment and apparatus required for the utilisation of this power.*

Transport

35. The relative backwardness of India's industrial sector is reflected in the development of its transport system also. India's total road mileage (metalled) is only 86,889. Mileage (metalled) per thousand square miles is only 71 as compared with 1,840 in France, 2,020 in Great Britain and 1,030 in the United States. Similarly, the railway mileage is comparatively low. Mileage per thousand square miles works out to 22 in India as against 79 in the United States and 214 in the United Kingdom. In any plans for the industrial development of the country, the expansion of the transport system must have high priority.

Industrial Development

36. As a source of employment, cottage and small-scale industries play an important role in India's economy. About 15·4 million people are employed in this sector as compared with about 2·6 million people in the organised industries. In the absence of any reliable data regarding the volume and value of the products of cottage and small-scale industries, little can be said about their progress during the last three decades.

The present position of the organised industries is summarised in Appendix V. Significant changes have taken place in the industrial structure of the country after the Indian Fiscal Commission reported in 1922. The total volume and variety of output of manufactured goods today places India among the first 10 leading industrial countries of the world. This, however, does not mean much when account is taken of the size of the country, its population and resources. Some of the principal industries like textiles, sugar, steel and cement may be said to be of consi-

* SOURCE —Ministry of Works, Mines and Power.

derable dimensions. But there are notable deficiencies. India has only a few heavy capital goods industries. Machinery and machine tools, non-ferrous metals, electrical engineering, automobiles and tractors, prime movers and heavy chemicals are some of the basic industries which are either non-existent or still in their infancy.

37. The industrial progress of a country may be judged by its consumption of steel and heavy chemicals. India's *per capita* consumption of steel is only 8 lbs. per year as against 860 lbs. in the U.S.A., 520 lbs. in the U.K. and 470 lbs. in Australia. Similarly, the *per capita* consumption of sulphuric acid in India is 400 times lower than that of the U.S.A. and that of soda ash 100 times lower. India's position in the industrial world may also be judged by the fact that there are still less than 3 million persons employed in large-scale factories, which constitutes less than 2 per cent. of working population.

TABLE 9

Table Showing Present Installed Capacity and Five-Year Targets

Industry	Unit	Present Capacity	Five-year target*
Steel	000 tons	1,264	2,500
Heavy chemicals—			
(a) Sulphuric acid	,,	100	152
(b) Soda ash	,,	54	270
Non-ferrous metals—			
(a) Copper manufactures	,,	25	41
(b) Lead	tons	100	12,000
(c) Aluminium ingots	,,	2,400	15,000
Cement	000 tons	2,100	5,000
Glass—			
(a) Beads and pearls	tons	120	4,200
(b) Sheet glass	Mn. Sq. Ft.	20	42
(c) Plate and flowered glass	,,	nil	3·7
Paper Boards—			
(a) All types of paper other than newsprint	000 tons	90	169
(b) Newsprint	,,	nil	20
(c) All types of Board paper	,,	24	75
Paints and enamels	,,	50	100
Ceramics—			
(a) White-ware	tons	5,600	6,768
(b) Stone-ware	,,	5,400	6,480
Cotton textiles (mill cloth)	million yds.	4,800	7,200
Sugar	000 tons	1,400	1,600
Soap	,,	180	300

*Relates to Undivided India.

The extent of the deficiency in some items of industrial production may be gauged from the figures of the present productive capacity in these industries and the targets laid down for the first five years by the Industrial Panels appointed by the Government. (Table 9).

We realise that many of these targets will require revision in the light of revised estimates of demands and the capacity of Indian industries to expand. The figures shown in Table 9 are therefore intended only to show the order of India's deficiency in certain important lines of manufacture rather than to suggest any practical programme of expansion.

Foreign Trade

38. India's foreign trade upto 1939, exhibited all the characteristics of an economy based on primary production. A few items dominated exports; machinery, equipment and consumer goods were imported; exports were directed to a few markets; there were large annual interest obligations abroad and little use was made of commercial policy or the usual commercial safeguards to protect the economy of the country from disturbing influences originating abroad. The country's foreign trade per head was very low and its share in world exports declined from 3·7 per cent. in 1928 to 2·9 per cent in 1938.

The expansion of trade in the decades before 1914 were not maintained in the inter-war years. The quinquennial averages of exports and imports after 1920-21 are shown below:—

TABLE 10

Value of India's Imports and Exports 1920-21 TO 1944-45
(Quinquennial Averages)

(Value in Rs. lakhs)

	Imports	Export
1920-21 to 1924-25	261,78	300,81
1925-26 to 1929-30	240,29	327,27
1930-31 to 1934-35	134,28	161,33
1935-36 to 1939-40	150,21	180,86
1940-41 to 1944-45	152,40	204,33

In the middle-twenties trade was at a fairly high but varying level. Soon after as the depression came, both the quantity and the value of trade (especially the latter) dropped heavily, and there was little recovery till the

middle thirties. In most of the war years, imports ruled fairly low. From 1944-45 their values have risen continually, but this was due mainly to the rise in import prices, there was no corresponding increase in quantity.

During the inter-war years, the percentage shares of the three main groups of imports in the total were as shown in the table below:—

TABLE 11

Group-wise Composition of India's Import Trade in Inter-War Years

(Quinquennial Averages)

Percentage of total

	Group I Food, Drink & Tobacco	Group II Raw Materials etc.	Group III Manufactured articles
1920-21 to 1924-25 .	14·1	7·4	76·7
1925-26 to 1929-30 .	16·1	9·3	72·6
1930-31 to 1934-35 .	13·1	14·4	70·3
1935-36 to 1939-40 .	14·0	19·8	64·4

Of the three main Groups of imports, the first maintained a relatively steady share (approximately 14 per cent.); Group II increased its share from 7·4 in 1920-25 to 19·8 in 1935-40 due mainly to imports of superior raw cotton when from the early thirties the textile industry improved and diversified its production and of oil; Group III which includes Consumer goods, like textiles and machinery, lost from 77 per cent. to 64 per cent. During these years the composition of world trade also changed in a similar manner: trade in foodstuffs etc., fell heavily and manufactured goods lost slightly less; but trade in raw materials gained considerably.

This classification does not, however, reveal the small but significant changes in India's imports which reflected a certain measure of industrial development. To study the changed pattern of India's import needs, we have classified below the imports into consumer goods, raw materials and capital goods, thereby breaking up Group III above *viz.*, Manufactured Articles.*

*Some important items in these groups are:

Consumer goods.—Food, drink and tobacco; apparel, cutlery; certain instruments and apparatus, paper, textiles and certain vehicles.

TABLE 12

Share of Raw Materials, Consumer Goods and Capital Goods in India's Imports in Inter-War Years.

Percentage of total.

	1925-26	1931-32	1935-36	1938-39
(i) *Consumer goods* . . .	54·0	51·6	48·9	33·0
(ii) *Raw Materials*—				
A. Mainly unprocessed . .	4·1	8·1	7·8	10·4
B. Partly processed . .	11·5	15·3	16·0	18·0
(iii) *Capital goods* . . .	23·2	21·7	26·1	25·9

NOTE.—Raw materials have been subdivided into (a) mainly unprocessed (*e.g.* textile fibres, raw hides and skins, oils etc.) and (b) Partly processed (yarns tanned hides and skins, chemicals, etc.).

While the broad changes in the three groups were as shown above, the individual items in the groups behaved in different ways. For example, between 1925-36 within the consumer goods group, the percentage shares of food, drink and tobacco and of all textiles fell from 27 per cent. and 55 per cent. to 20 per cent. and 50 per cent. respectively, while those of certain hardware, instruments and apparatus and artificial silk piecegoods increased from 3, 1, and 1 per cent. to 4, 3, and 5 per cent. respectively; within the raw materials group raw cotton increased from 10 and 21 per cent. and chemicals etc., from 6 to 10 per cent., while oils and cotton yarn fell from 30 and 22 per cent. to 23 and 12 per cent. respectively. In the capital goods group significant increases were recorded by various electrical instruments (4 to 9 per cent.), machinery and millwork (28 to 39 per cent.), while metals (manufactured) fell from 48 to 35 per cent.

After some temporary shifts especially in the later stages of the war, imports during 1945-48, though governed

Raw materials.—(A) Hides and skins, rubber, cotton, jute, silk wool, hemp, wood and timber; (B) Gums, resin and lac; oils, dyes and colours, jute manufactures and cotton, silk, wool and artificial silk yarn.

Capital goods.—Electrical instruments, machinery and millwork, printing and lithographing machinery, railway plant and rolling stock, certain vehicles, metals—manufactured, and hardware (excluding cutlery and electroplated ware).

by many short-term and emergency factors *viz.*, inflationary pressure and restraints and currency convertibility, tended to resume their pre-war pattern. Partition checked this tendency by necessitating the import of more foodgrains, raw cotton and jute and reducing the share of capital goods. This is shown by the last column in the table below. The increase in the value of imports in 1948-49 is also due to a sharp rise in prices over 1947-48; as export prices did not rise proportionately, the terms of trade fell from 101 to 96·7.*

TABLE 13

Share of Raw Materials, Consumer Goods and Capital Goods in India's Imports in Post-War Years.

Percentage of total.

		1947-48 (P)	1947-48 (P & G)	1948-49 (P & G)	1948-49† (P & G)
Consumer Goods		35·0	38·7	32·7	35·7
Raw Materials	A	12·1	10·8	15·5	23·5
	B	19·3	17·7	18·5	14·4
Capital Goods		31·0	30·1	31·5	24·5

NOTE—

P—Private imports.

G—Imports on Government account.

*The trade statistics of India since the Partition are not strictly comparable with those of previous years for the following reasons:—

(i) From the 1st and the 15th of August 1947, the foreign trade of the Provinces of Sind and East Bengal respectively was excluded from India's trade statistics.

(ii) Upto February 1948 these statistics excluded India's sea-borne trade with Pakistan.

(iii) The trade of the ports in the States of Kathiawar and Travancore with foreign countries is included with effect from 1st April 1948.

(iv) The foreign sea-borne trade of Kutch is included with effect from June 1948.

(v) From April 1948 the previous distinction between trade on Government and private account has been abolished and all exports and imports are shown in consolidated statements.

(vi) For 1947-48 there are no estimates of the land-borne trade between India and Pakistan; for 1948-49, however, the D.G.C.I.S. have published estimates of this trade. In some places below two sets of figures have been given for 1948-49, one including and the other excluding the Indian Union's trade with Pakistan across the land frontier.

Further since the beginning of the war, imports of foodgrains have not been fully recorded in the published returns of sea-borne trade.

†This figure includes (a) the land borne imports from Pakistan, (b) the known excess of foodgrain imports over the figure recorded in Sea-borne statistics.

In the first half of 1949-50 the above structure of imports was maintained but the increased imports of all categories of goods coming under O.G.L. XI and the continued heavy drafts on India's Sterling resources because exports failed to show any comparable increase, necessitated a restriction of imports in mid-1949. Increase in imports in the first half of 1949-50 compared with the first half of 1948-49 is indicated for a few items below:—

	Rs. Crores	
	April-Sept. 1948	April-Sept. 1949
Grains	35·6	48 9
Provisions etc.	2·3	5·3
Oils, vegetable & mineral	18·2	31·1
Raw cotton	26·6	37·1
Cutlery, hardware etc.	6·2	10·1
Machinery	39·1	54·2
Cotton yarns and manufactures	5 8	15·7
Yarns and textile fabrics other than cotton jute, silk and wool.	5·5	13·9

In September 1949, following the devaluation of the pound sterling, India devalued the Rupee *vis-a-vis* the dollar by 30·5 per cent. From that time imports, especially from Pakistan, have been reduced, and imports from the dollar area have continued to be seriously restricted. Exports have shown a steady improvement upto March 1950, the latest month for which figures are readily available. A part of the increase in exports has, however, been ascribed to sales out of accumulated stocks and a part to the increased rupee prices of Indian exports which has resulted from devaluation.

The percentage share of the Commonwealth and other countries in the imports during 1920-45 is shown below:—

	Commonwealth Imports	Other Imports
1920-25	65·4	34·6
1925-30	54·8	45·2
1930-35	46·9	53·1
1935-40	53·8	46·2
1940-45	51·5	48·5

The Commonwealth's share in imports fell from nearly two-thirds in 1923-25 to 45 per cent. in 1931-32; in 1933-35 it rose to 50 per cent. Among other countries, Japan steadily increased its share even during the depression. Germany paralleled the gain made by Japan. U.S.A. which gained from 5·7 per cent. to 9·3 per cent. (1923-33) later suffered a decline. Java lost heavily in sugar. These changes can be

attributed to three forces: (a) "Imperial" Preference, (b) the changed pattern of imports for many of which United Kingdom was often at a comparative disadvantage and (c) the general trend towards bi-lateralism and the drop in United Kingdom's capital exports to India in the early thirties.

While 'Imperial' Preference tended to draw the Commonwealth countries together, the changed pattern of India's imports reflected in increasing imports of raw materials and capital goods relatively to consumer goods led to a slight diversion of imports from the United Kingdom to other countries. The effect of the third factor on the directional pattern was conditioned by the regional distribution of India's trade balances. The table below shows India's trade balances with six regions in 1927-29 and 1937-39.*

TABLE 14

Regional Balance of Trade.

Average for two years	Region I U. K.	Region II Conti-nent	Region III Austra-lia	Region IV Japan, China, & SEA	Region V America	Region VI Africa and Middle East
1927-29						
Exports	+73,46	+84,45	+6,99	+71,76	+53,35	+9,09
Imports	—116,23	—45,05	—5,19	—47,58	—21,55	—7,44
Balance	—42,77	+39,40	+1,80	+24,18	+31,80	+1,59
1937-38						
Exports	+57,90	+39,76	+3,05	+39,60	+22,46	+3,64
Imports	—49,22	—27,55	—2,04	—51,58	—12,32	—13,10
Balance	+8,68	+3,21	+1,01	—11,98	+10,14	—9,46

SOURCE:—*Compiled by the Director of Commercial Intelligence & Statistiecs.*

*The countries included within Regions II, IV, V and VI are: (II) Sweden, Germany, Netherlands, Belgium, France, Switzerland, Italy, Czechoslovakia and the U. S. S. R.; (IV) Japan, China, Honkong, Straits Settlements, Java, Malaya, Burma, Indo-China, Siam, and Ceylon; (V) U. S. A., Canada, Argentine, Brazil, Chile and Cuba; and (VI Iran, Iraq, Kenya, Egypt, Tanganyika, Anglo-Egyptian Sudan, and Zanzibar and Pemba.

The table shows the cosiderable changes in these balances especially with the United Kingdom, Continental Europe and the Far and South East Asia (Region IV). Before the depression, India was able to meet its fixed obligations to the United Kingdom out of the surplus in its trade with Europe, the Far East and the Americas. This was no longer possible with the general restrictive trade policies of the 1930's. The countries outside the Commonwealth no longer ran surpluses with the Commonwealth countries. India's large surplus balance of the 1920's was considerably reduced and its regionwise distribution altered so as to enable the country to meet more of its obligations through bilateral channels.

Since the war, the Commonwealth has lost its share in India's imports, U.S.A. gained from 7 per cent. to 16 per cent. (30 per cent. in 1947-48). The new sources on which India has been depending for its imports since the war and the problems connected with the hard currency deficit are discussed in greater detail in Chapter X.

39. In the inter-war years export receipts fluctuated considerably. India was traditionally known for its large favourable trade balances. The values of exports since 1920-21 have been indicated in Table 12. In the middle 1920's exports attained high levels (Rs. 400 crores in 1924-25). The decline from 1928-29 however continued till 1932-33 (Rs. 135 crores). The recovery to Rs. 202 crores in 1936-37 was followed by a heavy decline due to the recession and the separation of Burma. During 1927-39 the quantum index of exports fluctuated more than that of imports: the lowest point for exports was 75 in 1932-33. During 1933-36 the index was steady when values increased by 9 per cent. During the war exports increased considerably in value and this rise continued in the post-war years. In 1948-49 the total value of exports was two and a half times the average for 1937-39. Since however the level of export prices had also risen, the quantum of exports, averaged over 1945-49, was a trifle over two-thirds of the pre-war value. This rise of export prices prevented the aggravation of the balances of payment problem. It was nevertheless a handicap when in late 1948 and early 1949 the recession in the U.S. put an end to the seller's market which had been in existence since the end of the war owing to various shortages. The devaluation of the rupee *vis-a-vis* gold in September last came to the rescue and exports have since shown a hopeful increase.

The percentage share of the three main groups of exports during 1920-45 is indicated in the table below:—

TABLE 15

Groupwise Composition of India's Export Trade
1920-21 *to* 1944-45

(*Quinquennial Averages*)

Percentage of total

	Group I Food Drink and Tobacco	Group II Raw Materials	Group III manufactured Articles
1920-25 . .	24·0	50·2	24·8
1925-30 . .	23·0	49·5	26·6
1930-35 . .	26·4	45·6	26·9
1935-40 . .	21·8	46·7	30·0
1940-45 . .	23·8	25·4	49·3

It will be seen that during the inter-war years somewhat less than half of the exports consisted of raw materials (Group II); the rest belonged in about equal portions to Groups I and III that is food, drink and tobacco and manufactured articles. In 1927-29 and 1937-39 the shares of Groups I, II and III were 23·3 per cent. and 22·6 per cent., 47·4 per cent. and 45·2 per cent. and 28·1 per cent. and 30·5 per cent. respectively. This shows to what extent the structure of exports remained relatively static. There were however appreciable annual changes in the shares of the three Groups—for example, the range of fluctuation of Group I was between 20 and 28 per cent., that for Group II 41 and 52 per cent. and for Group III 22 and 32 per cent. The main item responsible for the variations in the share of Group I was grain, pulse and flour. Tea steadily increased its share of exports. In Group II raw cotton was the largest item and this fluctuated widely. Raw Jute and seeds also showed similar changes. The large changes of Group III arose mainly from the share of cotton and jute manufactures, India's two most important exports in the category of manufactured articles; leather and dressed hides and skins were two other important items.

The table below showing the shares of ten important export commodities during 1926-39 further illustrates the remarkably static nature of India's Exports.

TABLE 16

Percentage Shares of certain Export Items in Total Exports of Indian Merchandise.

	Average 1926-27 to 1928-29	1931-32	1932-33	1937-38	1938-39
Cotton Raw	18·30	15·26	15·63	16·46	15·14
Jute Manufactures	17·22	14·06	16·40	16·07	16·12
Grain, Pulse and Flour	12·33	13·07	12·14	5·24	4·75
Tea	9·29	12·47	12·96	13·48	14·38
Raw Jute	9·43	7·18	7·35	8·14	8·22
Seeds	7·89	9·36	8·54	7·84	9·26
Cotton Manufactures	2·88	3·09	2·49	5·14	4·37
Metals and Ores	2·63	3·51	3·54	3·39	3·01
Hides and Skins Raw	2·68	2·30	2·09	2·79	2·3[illegible]
Leather	2·70	3·43	3·60	4·01	3·24
TOTAL	85·35	83·77	84·74	82·56	84·68

During the war years exports of manufactured articles especially cotton and jute increased, mainly at the expense of raw materials like cotton, jute and oilseeds. Between 1935-40 and 1940-45 the percentage shares of raw materials and manufactured articles in total exports changed from 47 per cent. and 30 per cent. to 25 per cent. and 49 per cent. This war time tendency for increasing export of manufactured articles continued after the war especially after the partition when the country lost its exports of raw cotton and jute. The principal articles of exports in 1948-49 were jute manufactures (33·3 per cent.), tea (14·5 per cent.), cotton manufactures (9·7 per cent.), raw jute (5·5 per cent.), raw cotton (4·3 per cent.) and oils (3·5 per cent.). During 1947-49 the share of jute manufactures in India's exports increased from 23·5 per cent. to 33·3 per cent.

Unlike imports, exports during the inter-war years went increasingly to the Commonwealth countries as shown below:—

	Commonwealth Exports	Other Exports
1920-25	39·2	60·8
1925-30	36·4	63·6
1930-35	43·5	56·5
1935-40	50·4	49·6
1940-45	64·3	35·7

Even before the depression exports tended to concentrate on the Commonwealth. Imperial Preference strengthened this tendency. Before 1930 India's main exports to the United Kingdom were manganese ore, dressed and tanned hides and skins, raw cotton, oilseeds, jute-raw and bags, wheat and tea. After the enactment of the Import Duties Act, 1932, it was possible for the United Kingdom to offer preferences on certain commodities to Commonwealth countries. These increased the competitive position of the Commonwealth countries including India in the United Kingdom market in respect of certain preferred items. Within the Commonwealth the bulk of India's exports went to the United Kingdom. But exports to countries outside the Commonwealth were more widely distributed. India had valuable markets in certain European countries like Germany, France and Italy and in the U.S. and Japan. The decline in India's exports to some of these countries was checked round about 1933 owing to the depreciation of some important currencies and a measure of relaxation in restrictive policies previously pursued. In the quinquennium ended 1939-40 India's exports were equally divided between the Commonwealth and foreign countries. In the next quinquennium the share of the Commonwealth increased to over 64 per cent. Since the war, however, the Commonwealth has been fast losing ground. In 1948-49 the pre-war share of a half of India's exports was more or less maintained. But if land-borne trade with Pakistan is added to the sea-borne exports, the share of exports to the Commonwealth shows a slight increase. Within the Commonwealth the share of the United Kingdom has been slowly falling. As among other countries, India has so far regained only a small portion of its pre-war markets in Europe especially in Germany and in Japan. The United States of America is now one of India's largest markets. While in 1935-40 it took a tenth of our exports, in 1947-48 it took a fifth. (The share of imports from this country in these years was 7·3 and 30·3 per cent. respectively). The most important exports to the U.S. are raw jute, mica, manganese and hides and skins. In 1948-49 the share of India's exports to the U.S. fell slightly.

During the past two years India has been finding it difficult to export in sufficient quantities to pay for its large import needs without seriously depleting its foreign assets. In the summer of 1949 the difficulty became acute, and when the United Kingdom devalued its currency *vis-a-vis*

gold, India followed suit. Various measures were adopted to stimulate exports especially to the dollar area and to restrict imports by such devices as export drives, rigorous import control and bilateral agreements with a number of countries. We shall refer to some of these subjects again when we consider the problems facing India's exports in the immediate future in Chapter X.

Appraisal of the Economy Situation

40. In the last 30 years India's economy has shown some marked changes—some on the credit and some on the debit side. The country has greatly reduced its dependence on foreign sources of supply in certain consumption articles *e.g.*, in cotton textiles, matches, soaps, sugar, paper, cement, iron and steel and a few chemicals. Secondly, during the period increasing attention has been paid, specially in the years after World War II to the development of India's natural resources.

On the debit side, the agricultural sector of the country's economy has remained practically stagnant throughout this period, with little increase in the total yield of agricultural crops or little change in the character of agriculture. Population has, meanwhile, continued to grow and the occupational pattern has shown little change. Consequently, notwithstanding the increase of production in certain lines of manufacture, the market for industrial goods has remained restricted. Moreover, during the last three decades, India has been losing its share in world trade. In particular, India has now to depend on imports of foodgrains to feed its population and on imports of cotton and jute for its important industries. Foreign investment has played a relatively small part in supplementing domestic investment and production; indeed the sources of foreign capital practically dried up from the beginning of the 1930's. In the circumstances, it is not surprising that there has been so little increase in the over-all supply of goods and services available for domestic consumption in relation to India's population. In spite of the advance made in some lines of manufacture the deficiencies in the different sectors of our economy still remain considerable and a great effort will be needed to make up the lee-way in agricultural and industrial production. We shall revert to the problems in a subsequent book of the Report where we discuss the pattern of economic development.

CHAPTER IV

TARIFF POLICY IN RETROSPECT

Section A

Pre-War Policy

Free Trade Policy before 1922

41. During the period when the U.S.A., France and Germany were building up their industrial structure under tariff protection, the policy pursued by the Government of India was based on the principle of free trade. Under this regime India became an exporter of raw materials and depended on imports from outside for manufactured articles. The only two important industries which were developed during this period were cotton and jute textiles for which India possessed exceptional natural advantages. The weakness of this policy was revealed to the Government during the first World War (1914-18) when imports became difficult. The Government of India, therefore, appointed an Industrial Commission in 1916 to explore the possibility of industrialising the country. The Commission submitted its report in 1918 and recommended that "in future Government must play an active part in the industrial development of the country with the aim of making India more self-contained in respect of man and material". As fiscal policy was outside the terms of reference to the Commission, the main recommendations were confined to improvements in the departmental organisation for the encouragement and control of industries, improvements in technical training and education, re-organisation of the scientific staff of the industrial departments with a view to the establishment of a more comprehensive system of research, the grant of technical and financial assistance to industry and improvement in labour conditions including housing and sanitation.

Fiscal Autonomy Convention

42. In the meantime, rapid changes were taking place in the political sphere. In August 1917 a resolution was passed in the British Parliament which envisaged "progressive realisation of responsible Government in India as an integral part of the British Empire". The Joint Select Committee which examined the subsequent Government of India Bill, 1919, recognised that fiscal freedom should not lag behind political freedom. It said: "Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of Great

Britain". The Committee, therefore, suggested the establishment of a convention of non-interference in the fiscal policy of the Government of India by the U.K. Government. In 1921 the Secretary of State for India accepted this as the future policy in his reply to a deputation from Lancashire on the Indian import duties on cotton goods. This was a landmark in the history of fiscal policy in India.

Discriminating Protection 1923-39

43. With the fiscal autonomy convention established, the question of formulating a tariff policy came to the forefront and the Government of India in response to public feeling decided to appoint a Fiscal Commission "to examine with reference to all interests concerned the tariff policy of the Government of India including the question of the desirability of adopting the principle of Imperial Preference and to make recommendations." The Commission after a careful investigation of existing conditions came to the conclusion that the industrial development of India had not been commensurate with the size of the country, its population and its natural resources. After examining the advantages and possible disadvantages of industrialisation, the Commission felt that industrial development "would be very much of advantage to the country as a whole creating new sources of wealth, encouraging the accumulation of capital, enlarging the public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture and finally stimulating the national life and developing the national character". The pattern of industrialisation visualised by the Commission, was, however, the simpler forms of manufacture. In recommending protection, the Commission desired that "in the interests of the consumers generally and particularly of the masses of the people, in the interests of agriculture, in the interests of steady industrial progress and for the maintenance of a favourable balance of trade, the policy of protection should be applied with discrimination so as to make the inevitable burden on the community as light as is consistent with the due development of industries and to avoid abrupt disturbances of industrial and commercial conditions". The Commission, therefore, laid down the following three conditions for the selection of industries for protection:—

"(1) The industry must be one possessing natural advantages such as an abundant supply of raw material, cheap power, a sufficient supply of labour or a large home market. Such advantages will be

of different relative importance in different industries, but they should all be weighed and their relative importance assessed. The successful industries of the world possess certain comparative advantages to which they owe their success. No industry which does not possess some comparative advantages will be able to compete with them on equal terms and therefore the natural advantages possessed by an Indian industry should be analysed carefully, in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community.

"(2) The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. This is an obvious corollary from the principles which have led us to recommend protection. The main object of protection is either to develop industries which otherwise would not be developed or to develop them with greater rapidity.

"(3) The industry must be one which will eventually be able to face world competition without protection. In forming an estimate of the probabilities of this condition being fulfilled, the natural advantages referred to in condition (1) will of course be considered carefully. The importance of this condition is obvious. The protection we contemplate is a temporary protection to be given to industries which will eventually be able to stand alone."

44. The Commission also made the following recommendations for the development of industries:—

"(1) that raw materials and machinery be ordinarily admitted free of duty and that semi-manufactured goods used in Indian industries be taxed as lightly as possible;

"(2) that Industries essential for purposes of national defence and for the development of which conditions in India are not favourable be adequately protected if necessary;

"(3) that no export duty be ordinarily imposed except for purely revenue purposes and then only at very low rates; but when it is considered necessary to restrict the export of foodgrains, the restriction be effected by temporary export duties and not by prohibition".

45. To implement the above policy, the Commission recommended the constitution of a permanent Tariff Board whose duties would be to investigate the claims of parti-

cular industries to protection; to watch the operation of the tariff and generally to advise the Government and the Legislature in carrying out the policy indicated above.

46. The following subsidiary recommendations were also made:—

1. "that the proviso to Section 20 of the Sea Customs Act be repealed, and that Customs Duty be ordinarily levied on goods belonging to Government;

2. "that difficulties in the shape of shipping rebates or unfair advantages like dumping, depreciated exchanges, bounty-fed imports from abroad be investigated and where possible removed;

3. "that industrial development be promoted by giving a more industrial bias to primary education, and providing opportunities for training apprentices, and organisations for increasing the mobility of labour;

4. "that no obstacles be raised to the free inflow of foreign capital but that Government monopolies or concessions be granted only to companies incorporated and registered in India with rupee capital, such companies to have a reasonable proportion of Indian Directors, and to afford facilities for training Indian apprentices;

5. "that the tariff be not ordinarily employed for retaliation, or as a means of aggression; and

6. "that the tariff be elaborated with a view to remove ambiguities and that the system of specific duties and tariff valuations be cautiously extended."

Limits Discriminating Protection

47. The above recommendations were not endorsed *in toto* by five out of the eleven members of the Commission. They considered that the recommendations of the majority were hedged in with rigid conditions and provisos which were calculated to impair the progress of industrialisation. The main criticism centred round the three conditions laid down for the selection of industries for protection. The object of the first condition was to ensure as far as possible that no industry was protected which would become a permanent burden on the community. The aim of the third condition was also similar when it stated that the industry must be one which would eventually be able to face world competition without protection. In fact, the

first condition was explanatory of the third. The Commission, however, separated the two and specifically laid down under condition (1), that the industry should have comparative advantages like abundant supply of labour or a large home market. The result was that in several cases the "advantages" specifically enumerated as illustrative came to be regarded as rigid conditions to be complied with before protection could be given. For example, the Government refused to accept the Tariff Board's recommendations for granting protection to glass and the worsted section of the woollen industry on the ground that the essential raw materials were not available in the country. Further, under condition (1) the Commission considered a large home market as one of the factors in determining comparative advantage but ignored the possibilities of export market in cases where the home market by itself was not large enough for economic production. For instance, the locomotive manufacturing industry was denied protection in 1924 on the ground that the home market was not large enough. The second condition was a "truism" and should not have been called a condition as no industry was likely to apply for protection if there was no competition to face.

As we see it today, there was a fundamental defect in the approach of the last Fiscal Commission to the problem of protection. Protection was not visualised as an instrument of general economic development but was viewed as a means of enabling particular industries to withstand foreign competition, when they applied for protection. This resulted in a somewhat lop-sided development. With such an approach, it was not possible for basic and key industries to develop. It is also likely that the protection of isolated industries without a positive effort being made at the same time to provide facilities for the establishment of allied industries added to the total burden on the community.

As the minority report pointed out, in no other country have such conditions been laid down for the selection of industries for protection. It was for the Tariff Board to consider the advantages and disadvantages of protecting an industry in the interests of the national economy and this function should have been left to the Tariff Board without any rigid formulae. But as conditions had been laid down, the Tariff Board had to justify the grant of protection according to the letter of these conditions. Ample

evidence of this can be seen in the reports of the Board in which somewhat laborious attempts have been made to justify protection to particular industries. As one ex-President of the Tariff Board said, one of the major problems that faced the Board in its inquiries was to convert a Government wedded to free trade ideas to a policy of protection. This has been also the general view of many of the witnesses examined by us.

Working of Discriminating Protection 1923-39

48. The Government accepted the principle of protection and the following resolution was passed by the Indian Legislature in the Budget Session of 1923:—

> "That this Assembly recommends to the Governor-General in Council (a) that he accept in principle that the policy of the Government of India may legitimately be directed towards fostering the development of industries in India, (b) that in the application of the above principles of protection, regard must be had to the financial needs of the country, and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenues, (c) that the principle should be applied with due regard to the well-being of the community and subject to the safeguards suggested in paragraph 97 of the Report of the Fiscal Commission."

The resolution confined its attention to the principle of protection and the three conditions laid down for the selection of industries for protection. It did not refer to the other recommendations made by the Commission for non-fiscal measures of assistance, though it is clear that the Commission attached considerable importance to them.

One of the omissions on the part of the Government was the failure to appoint a permanent Tariff Board with the functions recommended by the Commission. *Ad hoc* boards were set up and frequent changes made in the personnel. This prevented the taking of long views, the accumulation of experience and the building up of an efficient body of technique and procedure.

49. In the working of the policy, some of the noticeable defects were (a) the delay that took place in referring cases to the Board, (b) the time taken by the Board to conduct inquiries and (c) the time taken by the Government to arrive at decisions on the Board's recommendations.

The following statement gives a few examples:—

TABLE 17

Time taken by the Tariff Board and the Government in Examining the Case for Protection of some Industries.

Name of the industry	Date of reference to Tariff Board	Time taken by Tariff Board to submit the report (*months*)	Time taken by Govt. to arrive at a decision (*months*)	Total time taken (*months*)
Cotton textiles	April 9, 1932	7	24	31
Iron and Steel	August 26, 1933	8	3	11
Paper	Dec. 11, 1937	5	10	15
Sugar	Mar. 27, 1937	9	15	24
Matches	Oct. 2, 1926	18	5	23

There is no record of the time taken by the Government to refer cases to the Tariff Board, nor is it known in how many cases applications were rejected by the Government without referring them to the Tariff Board. Witnesses have brought to our notice the difficulties caused to industries by such delays.

50. It may also be pointed out that in respect of some important industries, the Government did not accept the recommendations of the Tariff Board. We have already referred to the cases of glass and the worsted section of woollen industry where the recommendation for protection was turned down on the ground that essential raw materials were not available in the country. Another case which we like to mention is the other (*i.e.* non-worted) section of the woollen industry. When the industry applied for protection the Kanpur and New Egerton Woollen Mills, two important units in the industry did not endorse the application for protection nor did they appear before the Board to give evidence. These two mills were dominated by British interests and had attained a high level of efficiency. The Board, however, heard the case of the Indian section and recommended protection. The Government did not accept the Board's recommendation on the ground that an

important section of the industry had not tendered evidence and that the Board's conclusions did not apply to the industry as a whole.

SECTION B

Post-War Policy

Elements of Post-War Policy

51. During the war, with strict control of imports, the question of granting protection to industries did not arise. The Government, however, continued protection to those industries which were enjoying it at the time of the declaration of war, under the Protective Duties Continuation Acts. As has already been pointed out, the war gave a stimulus to new industries and the Government felt the necessity of encouraging them. In 1940 the then Commerce Member of the Government of India announced that industries started during the war would be adequately protected if they were organised on sound business lines. Since then the Government have been actively considering what their future policy should be. In 1945 Government were convinced that assistance or protection to industries started during the war would assume a measure of urgency during the period of transition and, therefore proposed to set up a Tariff Board for the investigation of the claims of such industries for assistance or protection. It was made clear at that time that this was a short term measure pending the formulation of a long term tariff policy and the establishment of a permanent machinery for the purpose. In November 1945, an interim Tariff Board was appointed for a period of two years to investigate the claims of various industries seeking protection or governmental assistance. An industry seeking protection or other forms of governmental assistance was to satisfy the Tariff Board:—

"(1) that it is established and conducted on sound business lines; and

"(2) (a) that, having regard to the natural or economic advantages enjoyed by the industry and its actual or probable costs, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or State assistance; or

(b) that it is an industry to which it is desirable in the national interests to grant protection or assistance and that the probable cost of such protection or assistance to the community is not excessive".

Where a claim to protection or assistance was found to be established, *i.e.*, if condition (1) and condition (2) (a) or (b) were satisfied, the Board would recommend

"(i) whether, at what rate and in respect of what articles, or class or description of articles, a protective duty should be imposed;

"(ii) what additional or alternative measures should be taken to protect or assist the industry; and

"(iii) for what period, not exceeding three years, the tariff or other measures recommended should remain in force."

"In making its recommendations the Board will give due weight to the interests of the consumer in the light of the prevailing conditions and also consider how the recommendations affect industries using the articles in respect of which protection is to be granted. Since relief, to be effective, should be afforded without delay, the Board is requested to complete its inquiries with all possible expedition and to submit a report as soon as the investigation of the claim of each industry is concluded." The conditions laid down in 1945 for the selection of industries for the grant of protection were an improvement on the conditions under which the pre-war Tariff Boards were working. The most important change was the decision to allow the Board to recommend protection or assistance to those industries which it considered to be of national interest. Further the Board was also specifically asked to recommend what additional or alternative measures should be adopted to assist the industries. Realising the changed circumstances the Board has been giving a liberal interpretation to the terms of reference. Moreover, most of the industries established during the war were hurriedly set up to meet defence requirements or to fill serious gaps in the supply of essential goods for civilian consumption and had to work under serious handicaps; the machinery used was either old or improvised; raw materials and technical personnel were in short supply; the majority of workers employed lacked training and skill; the movement of raw materials and finished goods was slow and uncertain and there were strong inflationary forces at work making it difficult for the manufacturers to keep down the costs of production. It was, therefore, necessary to make sufficient allowance for all these factors in assessing the claims of war-time industries for protection or assistance.

Functions of the interim Tariff Board 52. The interim Tariff Board is entrusted with the following functions which were wider than those entrusted to previous Tariff Boards:—

"(1) To investigate claims for assistance or protection to:

(a) industries started or developed in war-time;

(b) other industries which helped to sustain the national economy during the war;

(c) other industries which, in the opinion of the Government of India, are suitable for examination by the Board.

"(2) To maintain a continuous watch over the progress of protected industries, advise the Government on the necessity or otherwise of modifying protection or assistance granted and check that conditions attached to the grant of protection are fully implemented. (In discharging this function the Tariff Board is charged to seek the assistance and advice of the Director General, Industry and Supply, and it may act on a direct reference from a protected industry applying for assistance or increased protection.)

"(3) To report to Government, as and when required, factors that lead to increase in the cost of production of Indian manufactured goods as against imported articles.

"(4) To enquire, as and when required by the Government, into the cost of production of a commodity produced in the country and to determine the wholesale, retail or other prices and to report on the same.

"(5) To advise the Government, as and when required, on measures whereby internal production may be secured on the most economical cost basis.

"(6) To recommend to Government, as and when required, measures necessary for the protection of India's industries from dumping from abroad.

"(7) To undertake studies, as and when necessary, on the effects of *ad valorem* and specific duties and tariff valuations on various articles and the effects of tariff concessions granted to other countries.

"(8) To report to Government, as and when necessary, on combinations, trusts, monopolies and other restrictions on trade which may tend to affect the industries enjoying protection by restricting production or maintaining or raising prices and to suggest ways and means of preventing such practices."

53. Some of the above functions have not been carried out. The main work done by the Board at present is the investigation of claims for protection, and inquiries into the cost of production and prices of articles like steel, textiles, paper, super-phosphates and tin plate. It is obvious that no useful purpose is served by the assignment of functions, if adequate facilities are not given to the body concerned to carry them out thoroughly. Working of Post-War Policy

54. The interim Tariff Board has also been following the method of equating the cost with the landed cost of equivalent import to determine the quantum of protection. One new feature that has been introduced in calculating the indigenous cost is the addition of a margin, which at times goes up to 20 per cent. for "consumers' prejudice". Tariff, both *ad valorem* and specific, is the general form of protection granted to industries. In a few cases subsidies and import restrictions have also been recommended. In one or two cases imports are permitted on condition that the importer or the consumer directly importing the article purchases specified quantities or units of the indigenous article. Apart from recommending duties or subsidies or import restrictions, the Board has made recommendations under the heading "other forms of assistance" relating to the following categories:—

"(i) placing of orders by Government with indigenous manufacturers;

(ii) modification of capital structure (*cf.*, in particular the recommendation in the report on non-ferrous metals that the Indian Copper Corporation, a sterling company, should be reconstituted as an Indian company if it wished to apply for protection and in the report on the grinding wheels industry that one of the producers should form itself into a public company instead of remaining a private company);

(iii) adoption of necessary measures to safeguard the Indian section of the industry in the event of non-Indian Companies expanding production to the detriment of Indian manufactures (*cf.*, report on the motor vehicles battery industry published on the 8th March, 1948—this recommendation has been accepted by the Government);

(iv) refund of duty on capital goods or raw materials required by the indigenous industry (this has been recommended even where the raw material was itslef a product of a protected industry);

(v) increased employment and training of Indian nationals;

(vi) financial assistance for technical training and employment of foreign experts;

(vii) formation of Manufacturers' Associations;

(viii) prescription of suitable standard specifications for the indigenous product;

(ix) improvement of hygiene (in the case of food industries);

(x) institution of joint sales organisations."

One feature worth noticing is the expeditious manner in which the interim Board has been conducting its inquiries. During the period of five years it has conducted ninety inquiries as against fifty-one inquiries conducted by the previous Boards between 1923 and 1939. It should also be mentioned that the Government have in most cases announced its decisions within a period of two months.

CHAPTER V

REVIEW OF PROTECTED INDUSTRIES

55. The Tariff Board conducted in all fifty-one inquiries between 1923 and 1939. These included fresh applications for protection, cases for renewal or revision of the quantum of protection and a few technical matters like tariff equalisation and the revision of tariff classification. The Government accepted the Board's recommendations without any modification in thirty-four cases, in ten of which the Board had rejected the claims for protection. In eleven cases, Government modified the recommendations before accepting them. The Board's recommendations for protection were rejected in six cases. The number of industries which actually received protection during this period was thirteen:—

1. *Iron and Steel including subsidiary steel industries*
2. *Cotton Textiles*
3. *Sugar*
4. *Paper and Paper pulp*
5. *Matches*
6. *Salt*
7. *Heavy Chemicals*
8. *Sericulture*
9. *Magnesium Chloride*
10. *Plywood and tea-chests*
11. *Gold thread*
12. *Wheat and*
13. *Rice*

The agricultural commodities like wheat and rice were protected on the Government's initiative without any reference to Tariff Board. Protection to the heavy chemicals industry was of little use to it, as the period of protection allowed was only a year and a half. The recommendation of the Board as regards the method of protection to plywood industry was so altered that the assistance actually received by the industry was negligible. Except in the case of the Match and Sericulture industries, all other industries which were given protection before 1939 were deprotected after the war. The development of

some important industries which were protected before the war is reviewed in the remaining sections of this Chapter.

STEEL

Tariff History

56. The development of the Steel Industry in India will ever remain as a land-mark in the history of Indian enterprise. The industry owed its origin to the vision of Jamshedji N. Tata. The Tata Iron and Steel Company (to be described as TISCO hereinafter) was formed in 1907 for the manufacture of iron and steel. Pig iron was first produced in December 1911 and steel in 1913. The outbreak of war in 1914 gave an impetus to the infant industry and by 1916-17 the industry was able to attain full production of its capacity. In that year a large scheme of expansion known as the "greater expansion" scheme was planned. Between 1922 and 1923 when the plan was nearing completion, the price of imported steel declined to a very low level, as a result of the severe fall in world's consumption of steel and a simultaneous increase in steel manufacturing capacity. Consequently the competitive position of Indian steel was weakened considerably and reached such a stage that the Company found it difficult to do without protection. It was at this time that Government accepted the policy of discriminating protection. The Iron and Steel industry was the first to apply for protection under this policy. The case was referred to the Tariff Board, which after a thorough inquiry came to the conclusion that the industry had qualified for protection under the conditions laid down by the Fiscal Commission and recommended protection for a period of three years. The Board also examined the effect of the increase in duties on the industries that consumed steel and recommended compensatory protection in some cases. The Government accepted the main recommendations of the Board and the Steel Industry Protection Act, 1924, was passed. Since then two statutory enquiries (1926 and 1933), three supplementary enquiries (1924, 1925 and 1930), and a final summary enquiry (1947) were held in regard to this industry. The cases for compensatory protection were also examined and in necessary cases such protection was granted. At the last inquiry held in 1947 the industry did not press for continuance of protection and on the recommendation of the Board, protection to it was withdrawn. The industry thus enjoyed protection for a period of 23 years.

57. At present there are three units of production—the Tata Iron and Steel Company at Jamshedpur with a capacity of 8,50,000 tons, the Steel Corporation of Bengal with a capacity of 2,50,000 tons at Burnpur, Asansol and the Mysore Iron and Steel Works with a capacity of 25,000 tons at Bhadravati in Mysore. Of these the Steel Corporation of Bengal started production only in 1940. The Mysore Iron and Steel Works which was established earlier has a limited capacity. In other words, the development of the steel industry under protection is largely the story of the Tata Iron and Steel Works and we shall confine our review to the history of development of this undertaking. The works of the TISCO are situated at Jamshedpur in Singhbhum District in Bihar about 155 miles west of Calcutta. The factors that influenced the location of the industry were the proximity of the site to iron ore, coal and limestone supplies; availability of water from the Subarnarekha and Khorkai rivers on the confluence of which the Works were situated; and easy access to railroad facilities as also comparative proximity to the port of Calcutta. **Progress of the Industry**

The TISCO works constitute at present one of the largest single units in the Commonwealth. A significant feature of the unit is that it is fully integrated; the Company owns besides the Iron and Steel Works proper, mines and quarries supplying iron ore, limestone and manganese ore and also coal mines supplying about 50 percent. of its coal requirements. The present rated capacity of the works as stated earlier is about 8,50,000 tons a year. In 1923-24 when the Company applied for protection, its capacity was only 2 lakh tons and the actual production was 1,63,000 tons. Between then and 1938-39, that is, just before the war, the capacity of that plant was raised to 7,50,000 tons and actual production to 7,01,000 tons. This expansion was to a great extent made possible by the policy of ploughing back the profits into the industry. The paid-up capital of the Company is only Rs. 10·43 crores. The value of gross block in 1923-24 stood at Rs. 20·41 crores which was increased to Rs. 26·69 crores in 1938-39. The value of the block in 1949 was Rs. 39·83 crores.

With this steady expansion, the Company was able to capture about 75 per cent. of the Indian market. In 1923-24 the total consumption of steel in India was about 8,36,000 tons of which the share of the TISCO was only 17·6 per cent. Since then the percentage has steadily increased and by 1933-34 the share of TISCO in the market

was 76 per cent. It was to meet the balance of the Indian demand that the Steel Corporation of Bengal was started in 1937.

At present TISCO manufactures all types of ordinary steels besides wheels, tyres and axles, alloy tools and special steels which require a high degree of technical knowledge and skill.

Development of subsidiary Industries

58. The establishment of the Steel Industry has also helped the development of subsidiary industries. Important among these are the tin-plate and the wire and wire-nail industries. Further, several other industries like the one represented by the Lightfoot Refrigeration Company which supplies oxygen to the works at Jamshedpur, the Jamshedpur Engineering and Machine Manufacturing Company which manufactures rolls and the Tatanagar Foundry which turns out castings have also sprung up at Jamshedpur. The Tata Locomotive and Engineering Company which was established to undertake the manufacture of locomotive boilers, underframes and road rollers, as also complete locomotives has been rendered possible by TISCO supplying the requisite quantities of steel. As an ancillary, the Company also manufactures agricultural implements in its own Agrico factory. Apart from these the Indian engineering industry in general owes its development in no small measure to the steel industry.

Employment in the Industry

59. If we look at development from another angle, *viz.* employment, there are at present 69,860 people on the pay roll of the Company which include men employed at Jamshedpur, coal mines and quarries, collieries and agents' offices at Bombay, Calcutta and Jamshedpur. The wage bill in 1923-24 amounted to Rs. 163·13 lakhs; it rose to Rs. 220·88 lakhs in 1938-39 and in 1948-49 to Rs. 720·44 lakhs. The above figures do not take into account the other benefits and amenities granted to labour such as cheap housing, free medical treatment and primary education and also profit-sharing bonus and contribution to the provident fund. In this connection special mention may be made of the fact that the managing agency of the company reduced its commission from 9 to 7½ per cent. of net profits from the 1st July 1946. Another aspect to which the Company has paid special attention is the training of technical personnel. With a view to bringing about a progressive Indianization of the technical personnel, the company set up a technical institute in Jamshedpur

in 1921 for the training of Indians for high technical posts. The establishment of the technical institute, with a trade apprenticeship course for semi-skilled employees and a technical night school for employees, has assisted in the creation of a large number of skilled and semi-skilled employees to fill positions requiring various degrees of skill and responsibility in the works. The total number of covenanted non-Indian employees which stood at 229 in 1924 now stands at 18. The Company has also a scheme under which those who show sufficient competence in their respective spheres of work are sent abroad to obtain further experience in other steel works.

60. The Company has fully realised the importance of research and in 1936-37 undertook the construction of a control and research laboratory at Jamshedpur which was completed in September 1937. Since then the Company has initiated research in several directions. As a result of research conducted during the war years, the Company was able to develop and supply a wide range of special alloy steel products to meet war demands such as bullet-proof armour plates, high speed steel for machine tools, chrome-molybdenum alloy steel for the manufacture of the short, nickel-chrome steel rounds for armour-piercing shells, special deep drawing quality steel for cartridge cases and for rifle and machine gun magazines, stainless steels for surgical instruments. Several types of magnet steels and high silicon sheets were also successfully produced. **Research**

61. It is seen from the above review that the steel industry has justified the protection granted to it, and there is no evidence to show that the extent of protection was more than what was needed to enable the industry to be established on a sound basis.

PAPER

62. The first paper mill was started in India a century ago by Dr. William Carey, the famous Missionary. It did not make much headway. In 1867 another mill was started at Bali in Bengal. Later, a few mills were started in Bengal and Bombay. The raw materials used by these mills were mostly jute and cotton rags and waste paper and later 'moonj' and 'sabai' grass. The mills found it difficult to compete with foreign paper made from wood-pulp. As in the case of many other industries, during the **Tariff History**

first world war when imports ceased the industry was able to improve its position; but when the war was over competition from imported paper became severe and the industry applied for protection in 1924. The Tariff Board which investigated the case for protection came to the conclusion that only paper mills which used bamboo pulp as raw material had any chance of development in the industry. The Board proposed that the Government should advance capital to companies which were best equipped to conduct exploratory work regarding bamboo pulp or help them to raise it from the public by guaranteeing their debentures. The Board also recommended a uniform specific duty of 1 anna per lb. on the imports of all writing and printing paper (with certain exceptions) for a period of five years in the first instance. The Government rejected the Board's recommendations for the grant of financial assistance but gave effect to the proposal regarding the duty by passing the Bamboo Paper Industry Protection Act, 1925. The duty was to last for a period of seven years.

In 1931 as the period of protection was to expire the case was again referred to the Board. The Board was satisfied with the progress made by the industry under protection. It was, however, found that there was a growing tendency among the mills to use imported woodpulp and to discourage this the Board recommended a duty of Rs. 45 per ton on imported woodpulp. The Board also recommended the continuance of the specific duty of 1 anna per lb. or 15 per cent. *ad valorem* whichever was higher for a further period of seven years. As regards classification of paper for purposes of protection, the Board was in favour of its being left to trade usage. The Government accepted the recommendations of the Board. The duties levied under the Act were, however, subjected to the additional surcharge of 25 per cent. levied in 1931 for revenue purposes. Difficulties regarding classification of paper arose quickly. After a careful examination the Board suggested a detailed classification in 1935 which was adopted by the Government. An important change made by the new classification was that the glazed hard size buff or badami mechanical paper which had been left out of the scheme of protection in the past was brought within its scope.

In 1937 the question of continuance of protection and the surcharge of 25 per cent. was referred to the Board. Regarding the latter the Board recommended the abolition

of the surcharge which accordingly was removed in 1938. The Board supported the claim of the industry for the continuance of protection on the grounds that it had justified itself by its results and that its withdrawal would not only be disastrous to the industry but would prevent the completion of the experimental work on bamboo pulp. The Board, however, recommended (i) that the protective duty on woodpulp be reduced to Rs. 35 per ton or 25 per cent. *ad valorem* whichever was higher, (ii) that the duty on paper be reduced to 11 pies per lb., and (iii) that the period of protection be extended by another seven years. The Government changed the rates of duty to 25 per cent. *ad valorem* on woodpulp and 9 pies per lb., or 25 per cent. *ad valorem* on paper. The period of protection was extended by three years. During the war protection to the industry was continued under the Protective Duties Continuation Act. In 1947, the case was again referred to the Board and on its recommendation protection to the industry was withdrawn.

Progress of the Industry

63. Paper may be divided into six classes—newsprint, printing, writing, packing and wrapping, old newspapers and other sorts. The Tariff Board recommended protection only to printing and writing paper, as only those two classes of paper were produced in India when the Board made its first enquiry. The development of the paper industry under protection is, therefore, confined to these two items. In 1924-25 the year preceding the grant of protection, the total consumption of printing and writing paper excluding newsprint but including note and letter papers and envelopes in India was 43,370 tons. Of this 23,331 tons were made in India and 20,039 tons were imported from abroad. In 1936-37 the production of the above classes of papers by the Indian paper mills increased to 43,951 tons whereas the foreign imports of the protected varieties declined to 11,839 tons. The production of writing and printing papers thus increased by nearly 88 per cent. while imports declined by nearly 41 per cent.

At present there are sixteen mills in India spread over almost all the Provinces. The largest number of units are, however, situated in Bengal and 50 per cent. of the total production of paper is in that State. The size of the units varies considerably. The Paper panel report considered a unit producing 8,000 tons per annum as an economic unit. If we take this as the standard, only eight mills are at present of economic size.

The industry has made considerable progress under protection. In 1924-25 the total paid-up capital of the paper mills in the country was only 95 lakhs of rupees which was increased to Rs. 2·25 crores in 1937-38. The number of mills in India increased from nine in 1925-26 to sixteen in 1948. In 1924-25 the rated capacity of the Indian mills was 33,000 tons and the actual output 20,000 tons. In 1938-39 the capacity was increased to 70,000 tons and the actual production amounted to 60,000 tons. At present the capacity is estimated at 1,36,000 tons and the output is about a lakh of tons. As far as capacity is concerned, the existing mills can sufficiently meet the demand for writing and printing paper in the country.

Employment in the Industry

64. With the expansion of the industry, employment has also increased. In 1925 the number of people employed in the mills was about 5,000 while at present over 19,000 people are directly employed in the industry. If we take the number of people required for collection of raw materials in forests, the total number of workers will be about 40,000. The wage bill in 1924-25 was Rs. 19·65 lakhs against Rs. 94 lakhs in 1949. As regards skilled labour considerable progress has been made in the training of apprentices in the manufacturing and engineering sides of the mills. Arrangements have also been made for training of apprentices in the paper pulp section of the Forest Research Institute, Dehra Dun.

Research

65. The greatest achievement of the industry is the development of bamboo pulp as a suitable raw material for the manufacture of paper. In spite of the fact that Government did not give financial assistance to the industry for the development of bamboo pulp, the industry itself by its own enterprise and research developed bamboo pulp as a suitable raw material. In this connection the researches carried out by the paper pulp section of the Forest Research Institute require special mention. Paper mills are now making a voluntary contribution to the paper pulp section of the Forest Research Institute at the rate of 4 annas per ton of pulp, and straw board mills at 2 annas per ton of straw boards. It may also be mentioned that the Cellulose Research Committee of the Board of Scientific and Industrial Research is now taking active steps to foster and encourage research in various centres in the country on problems connected with the cellulose and paper industry.

66. The last war gave a great impetus to the paper industry and many new lines of manufacture were taken up. At present production covers a wide range of paper including tissue, airmail, bank, bond, ledger, cartridges, craft and boards like duplex and triplex boards and straw boards. It is likely that some of these items will require protection when free imports start coming in but printing and writing paper which were given protection have developed to such an extent that no further protection may be required to them.

COTTON TEXTILES

67. The first cotton mill in India was started in Calcutta in 1818; but the development of the cotton textile industry really started with the establishment of the first mill in Bombay in 1854. It was the American Civil War which gave a fillip to the industry. Since then the industry has progressed through many vicissitudes. It received little Government assistance in the early stages. When revenue duties were levied on yarn and fabrics, the Government imposed countervailing excise duties which removed the benefits of the indirect protection. The war of 1914—18 helped the industry to advance but in the depression that followed, the position of the industry became precarious. In 1925 the situation was so bad that the industry was forced to cut down wages which led to a general strike. This drew the attention of Government to the seriousness of the situation, and as a first step Government removed the excise duties that were levied on cotton textiles. This by itself did not meet the needs of the case as Japan by that time had entered the Indian market and become a keen competitor. In 1926 the industry applied for protection and a special Tariff Board was constituted to consider the application. The Board agreed that the industry had established its claim for protection against imports from Japan. As regards the measure of protection the Board could not come to a unanimous agreement. Two members recommended a subsidy on yarn and an increase of 4 per cent. in the duty on cloth. The President did not favour subsidy and recommended an increase of duty of 4 per cent. for three years on all cotton manufactures including yarn. The Government did not agree to either of the suggestions, but as the position of the industry became critical within a few months the Government had to sanction the levy of a specific duty of 1½ annas per lb. or 5 per cent. *ad valorem* whichever was

Tariff History

higher on all imported yarn under the Indian Tariff (Cotton Yarn Amendment) Act, 1927. At the same time, in order to help the handloom weavers, the duty on artificial silk yarn was reduced from 15 per cent. to 7½ per cent. Since then the Tariff Board has enquired into the position of the cotton textile industry on four different occasions. The statutory enquiry in 1932 with regard to the industry was preceded by an emergency enquiry in the same year, while a special enquiry was held later in 1935. Protection was finally withdrawn from the cotton textile industry in 1947 as a result of a summary enquiry conducted by the interim Tariff Board in that year.

Progress of the Industry

68. The industry enjoyed protection for a period of twenty years. For the first three years protection was granted only to yarn, leaving the major section of the industry's manufacture *viz.*, cloth, unprotected. The following table will give an idea of the growth of the textile industry between 1926 and 1939:

TABLE 18

Progress of the Cotton Textile Industry between 1926 *and* 1939

	1926	1939	Percentage Increase(+) or decrease(—)
1. Number of mills	334	389	+16 5
2. Spindles installed	87,14,168	1,00,59,370	+15 4
3. Looms installed	1,59,464	2,00,076	+25·4
4. Average daily number of persons employed.	3,73,508	4,30,165	+15·2
5. Cotton consumed (Bales)	21,13,384	36,79,874	+74·1
6. Yarn (million lbs.)			
(a) Home production	807	1,233	+52 8
(b) Imports	49	41	−16 3
(c) Exports	55	37	—32·7
7. Cotton Piecegoods (million yds.)			
(a) Home Production	2,259	4,270	+93·2
(b) Imports	1,788	600	—66·5
(c) Exports	459	221	—51·9

During this period the number of mills increased from 334 in 1926 to 389 in 1939. Spindles and looms increased by 15.4 per cent. and 25.4 per cent. respectively, while the production of yarn increased by 52.8 per cent. and cotton piece-goods by 93.2 per cent. From this it can be seen that the increase in the production of both yarn and cloth was not due to any great expansion of plant and machinery but to the greater utilisation of the existing plant. During this period considerable diversification of production also took place. Production of yarn above 30 counts in Bombay increased from 17 million lbs. in 1926 to 88 million lbs. in 1938-39. Similarly manufacture of piecegoods from high count yarn also increased. In 1938-39, 457 million yards of dhoties and 64 million yards of cambrics and lawns were manufactured as against 169 million yards and two million yards in 1927-28.

The industry is spread all over India, though a measure of concentration exists in the state of Bombay especially in Ahmedabad and the city and island of Bombay. The total number of spindles and looms installed in the Bombay Presidency is 60 lakhs and 1.35 lakhs respectively, as against 104.3 lakhs and 2.02 lakhs in the whole of India.

Competitive position of the Industry

69. As was pointed out earlier, protection to the textile industry was granted mainly to help it to meet Japanese competition. As compared with Japan, India's greatest handicap was with regard to labour efficiency. Between 1923 and 1933 Japan completely reorganised its textile industry, and the effect on production and employment was remarkable. The number of spindles per worker increased from 25 in 1923 to 52 in 1933: production of yarn increased by about 42 per cent. and the output per worker was almost trebled; in the weaving section the number of looms per worker increased from 1.04 to 2.17 and the production of cloth increased by about 67 per cent. and the total output per worker was more than doubled. According to the 1932 Tariff Board, labour cost per lb. of yarn of average count sixteens in a Bombay mill exceeded the cost in a Japanese mill by over 60 per cent. Similarly the labour cost per loom per day for plain grey cloth in a Bombay mill was over three times the cost in a Japanese mill. It is this disparity in labour costs which made the position of the Indian industry difficult in competition with the Japanese industry. It is a moot point whether the efficiency of the Indian industry had increased during the period 1927—1939. In spite of the high tariff wall and

the quantitative restrictions of imports from Japan, the Indian industry was struggling hard to maintain production and expand the market for its products. In fact it was the war which gave the industry a respite and helped it to improve its financial position substantially. This improvement has however been achieved at a heavy cost. The machinery is now badly in need of replacement, rehabilitation and remodelling. It has been estimated that at present prices about Rs. 100 crores would be needed for the Bombay mills alone for this purpose as against their available cash resources of Rs. 45 crores.

Managing Agencies in the Industry

70. Another aspect of the industry to which the 1927 and 1932 Tariff Boards drew attention related to the managing agency system. They mentioned some features of the system which they considered to be unfavourable to the healthy development of the industry. To take one example both the Tariff Boards were of the opinion that the system of remuneration to managing agents should be based on profits. While in Bombay the general system of managing agents' remuneration is payment on profits with certain allowances, the remuneration in Ahmedabad still continues in most cases to be on the basis of sales. In other centres the practice varies.

Research

71. It has to be admitted that protection enabled the industry to expand production and capture a major share of the Indian market. But there is no evidence to show that the efficiency of labour and the quality of management have improved appreciably during the period of protection. As was pointed out earlier, these weaknesses led to the precarious position of the industry during the thirties.

Research is another aspect which has not received the attention it deserves. The need for continuous technical development in a highly organised and competitive industry like cotton textile requires no special emphasis. The Technological Laboratory of the Indian Central Cotton Committee and the Department of Chemical Technology of the University of Bombay are the two institutes where useful research is being carried on at present. In the former researches are confined to the use of various types of Indian cotton. It also helps in the testing of spinning machinery and the strength of samples of yarn. The Department of Chemical Technology specializes in finishing processes. There are practically no facilities for research on other aspects of production. We are glad to note that

recently on the initiative of the Ahmedabad Millowners' Association, a Research Association has been formed to promote research in methods of production of cotton textiles. The Association is taking steps to establish a Research Institute. It has made a capital contribution of Rs. 48 lakhs and the Government of India have given a grant of Rs. 19 lakhs. The recurring expense of the Institute will be met from subscriptions from members of the Association, and the Government have agreed to contribute 50 per cent. of the annual recurring expenses of the Association, subject to a maximum of Rs. 1½ lakhs, for a period of five years.

SUGAR

Tariff History

72. Sugar mills on modern lines were first started in India about the year 1903. The War of 1914-18 stimulated the growth of the industry as imports were reduced and there were high import duties on sugar; but the progress made by the industry was not appreciable. In 1929 the Sugar Committee of the Imperial Council of Agricultural Research which examined the possibilities of improved varieties of cane, considered that the improved varieties which were then being increasingly introduced would lead to a very large supply of cane and a glut in the cane and the 'gur' market. The Council therefore suggested to the Government that in the interests of sugar-cane growers the possibility of developing the sugar industry should be explored. The Government thereupon decided to refer the matter to the Tariff Board for inquiry. The Board agreed with the Sugar Committee that a crisis in the sugar-cane and gur market would arise unless the sugar industry was developed to absorb the surplus cane that would be produced as a result of the introduction of improved varieties. It therefore recommended protection to the sugar industry for a period of fifteen years and proposed that a protective duty be levied at the rate of Rs. 7-4-0 per cwt. which was the then existing revenue duty for the first seven years and Rs. 6-4-0 per cwt. for the remaining eight years. The Government accepted the recommendation of the Board and the duty was levied at the rate of Rs. 7-4-0 per cwt. on all classes of sugar until 31st March 1938 when a further inquiry was to be made to ascertain whether during the remaining period the amount of protection should be maintained, increased or reduced. Besides the protective duty the surcharge of 25 per cent. which had

been introduced in 1931 for revenue purposes was continued. This actually increased the rate of duty to Rs. 9-1-0 per cwt. and gave an impetus to the expansion of the industry. Within two years Indian production was stepped up considerably and imports declined correspondingly with consequent loss of yield from the import duty. The Government, therefore, decided to impose in 1934 an excise duty of Rs. 1-5-0 per cwt. on factory-made sugar (raised in 1937 to Rs. 2 per cwt.), with a corresponding increase in import duty. During this period the Government also passed a Bill enabling the Provincial Governments to guarantee a minimum price to the cane grower so that the benefit of protection might not be entirely appropriated by factory owners. In 1937 another Tariff Board was appointed to examine the measure of protection enjoyed by the industry and to report what adjustments were necessary in the rate of duty to provide adequate protection for the industry. The Board found that the policy of protection had been successful beyond expectation in increasing the internal production of sugar and reducing the imports of foreign sugar. According to the Board, the quantum of protection required for the remaining period was Rs. 7-4-0 per cwt. Adding the excise duty of Rs. 2 per cwt. they recommended that the then existing rate of import duty of Rs. 9-4-0 per cwt. should be continued. As regards the excise duty the Board considered it to be detrimental to the industry and particularly to the interests of the cultivator. The Board also made a number of recommendations regarding the organisation of the industry under some form of State control and the utilisation of molasses and bagasse, the two important by-products. The Government took over a year to announce their decision and meanwhile extended the operation of the existing duty till 1939. In 1939 they issued a resolution calling in question the Board's estimates of costs and its views on the excise duty. They, however, agreed to extend the period of protection by two years with an import duty of Rs. 8-12-0 per cwt., *i.e.*, Re. 0-8-0 less than the duty recommended by the Board. During the war protection to the industry was continued under the Protective Duties Continuation Act. In 1947 the Tariff Board held a summary inquiry and recommended extension of protection by another two years at the existing rates. In 1949 the case again came up before the Board. It recommended continuance of protection for two years, but the Legislature did not agree to the pro-

posal and protection was extended by one year and the Tariff Board was asked to conduct a further inquiry and report to Government on the need for prolonging the period. The Tariff Board after a thorough inquiry recommended the withdrawal of protection to the industry in 1950. The recommendation was accepted by the Government. The industry has thus enjoyed protection for an aggregate period of eighteen years.

It may, however, be pointed out that protection to the industry was withdrawn, not becasue the Board considered that the industry had sufficiently advanced to face competition, but because protection during the last eighteen years had produced "an attitude of complacency on the part of the three parties, *viz.*. Government, the industry and the cultivator, who are responsible for the efficiency of the industry and that, consequently, they have not taken sufficient steps to improve the overall efficiency of the industry so as to bring down its cost of production". The Board considered this as the most opportune time to withdraw protection without any serious risk to the industry and lift it from the 'complacency' because "there is no danger of any competition from low-priced imports of sugar on an appreciable scale for the next two or three years . . . . . . and particularly because, in the context of the present balance of payment position of the country, Government are not likely to permit imports of large quantities of sugar".

Progress of the Industry

73. The most remarkable feature about the sugar industry in India is the rapidity with which it developed under protection. In 1931-32 there were only 31 factories and the total production was 1,58,000 tons. Within a period of four years after the grant of protection, the number of factories increased to 135 and production went up to 9,19,000 tons. Till 1935-36 the increase in production was balanced by a decrease in imports. In that year the indigenous production increased by no less than 3,50,000 tons; but the decline in imports was not correspondingly marked. This lack of adjustment between production and imports led to accumulation of stocks which had a depressing effect on prices. Next year the mills were inclined to restrict production. That year there was however a bumper crop and under pressure from the U.P. and Bihar Governments, the mills agreed to crush more cane which resulted in over-production. The problem of disposing of stocks became acute and to

avoid prices falling below economic levels, a Sugar Syndicate was formed to regulate the sales of sugar by the member factories. The Syndicate was able to check the fall in prices. During the next two years production of sugar was brought down. In 1938-39 it was as low as 6,51,000 tons. The next year the production was doubled. This was again followed by a slump in the market and production declined to 7,51,000 tons in 1941-42. In 1942-43 and 1943-44 there was improvement in production but during the three subsequent years, there was a steady decline. The present production is about a million tons.

Special Problems of the Industry

74. Protection to the sugar industry has given rise to interesting problems. As the Tariff Board has recently examined them in detail, we do not propose to cover the field again but desire to draw attention to a few important features which are relevant to a consideration of fiscal policy.

The development of the sugar industry has shown the need for regulating the location of industries. Though when protection was granted, the largest area under cane cultivation was in the U.P. and Bihar, the Tariff Board in its reports in 1931-32 and 1937 drew attention to the fact that tropical regions were better suited for sugar-cane cultivation than sub-tropical regions. They examined conditions in different parts of India from this point of view and expressed a decided preference in favour of future development being directed to other areas than the U.P. and Bihar.

Another point worth mentioning is the emergence of the Sugar Syndicate. The working of the Syndicate has been examined in detail by the Tariff Board which has found that its activities were not in the best interests of the industry. On the recommendation of the Board the official recognition given to it by the U.P. and Bihar Governments has been withdrawn.

Another weakness of the scheme of protection to the sugar industry was the failure to assess the possibilities of the economic utilisation of by-products. At the time of the grant of protection it was realised that it would take time to improve the quality of sugar-cane and reduce the cost to the manufacturer. It was thus all the more necessary to explore ways and means to reduce costs by other methods. One possible way was by the economic utilisation of by-products like molasses, and press mud,

etc. If the development of by-products had been made a part of the scheme of protection, perhaps the cost of sugar would have been lower today, though Government's policy in regard to manufacture of power alcohol from molasses might have interposed an obstacle. The point that we want to make is that at the time of granting protection the Tariff Board should examine the possibility of the utilisation of by-products and adequate protection for such utilisation should be given, if necessary.

The emergence of conflicting sectional interests is another point worth noticing in this case. When the industry was protected, the question naturally arose of cane prices and the grower claimed a share of the benefits of protection. A reconciliation had thus to be effected between the interests of the cane grower, the industry and the consumer. This demanded unified action by a central authority: provincial fixation of cane prices was an obstacle to this. There was also the problem of the levy of Provincial cesses of which only a portion was used for research in improved varieties of cane which was the ostensible purpose for which the cess was imposed.

Lastly, there is the question of the levy of central excise duties on protected commodities to make up for the loss of customs duties. As the yield from the import duty on sugar fell from Rs. 6·80 crores in 1932-33 to Rs. 0·43 crores in 1936-37, the Government of India decided to levy an excise duty to make up for this loss. We are not concerned with this particular levy but the policy underlying it will be considered in a later section of the report.

SERICULTURE

75. Two other industries to which we propose to refer are Sericulture and the Match industry. These are the only two industries which were protected before the war and to which protection is still being continued. The case of Sericulture is peculiar. This industry has been in existence in India for a long time and had once a lucrative export market. With the development of sericultural industries in countries like Japan, China, France and Italy, under active Government assistance, the Indian industry began to lose ground steadily. The main defects of the Indian industry are want of organisation and failure to adopt new technical changes. As this industry is being

run as a cottage or a small scale industry, active assistance from the State can alone remedy these defects and place it on a sound footing. This was pointed out by the Tariff Board in its report of 1933 and the protection then recommended was intended to give time to the Governments to reorganise the industry. In other words the Board realised that protection by itself would not be sufficient to enable the industry to reorganise itself. Though the Government accepted the Board's recommendation in a modified form, no active measures followed for the reorganisation of the industry. In the two States of Kashmir and Mysore where a small measure of assistance was given to the industry, some progress was made. On the whole, between 1931-32 and 1937-38, the Indian consumption of silk increased from 43·39 lakh lbs. to 47·06 lakh lbs., and the Indian industry's share of the home market declined from 64·8 per cent. to 46·5 per cent. In 1938, the Tariff Board examined the case for the continuance of protection and submitted its report on the 23rd December, 1938. Before the Government had examined the report, war broke out and no action was taken on the recommendations of the Board. As in the case of many other industries, the war stimulated the growth of this industry, but immediately after the war, the industry found itself again in difficulties. Last year the Tariff Board examined the case in detail and came to the conclusion that to equate the Indian cost with the landed cost of comparable imports, a duty of 30 per cent. *ad valorem* plus Rs. 15/12/0 per lb. or a duty of about 159·5 per cent. was necessary as against Rs. 2/6/0 per lb. or 53·5 per cent.—the rate of duty recommended in 1932. In other words, after seventeen years of protection the quantum of protection still required by the industry was three times the rate considered necessary by the first Tariff Board. After devaluation, which led to an increase in the price of Italian silk, the quantum of protection has been reduced to 60 per cent. The lesson to be drawn from this is that in cases of this type where the industry cannot reorganize itself protective duty is not adequate; it has to be supported by State measures for improvements in technique and organisation. In this particular case, the story does not end here. Silk, being a luxury article, the demand for it is elastic and a higher price naturally brings down the demand necessitating curtailment of production. This is what actually happened when the duty was raised to 159 per cent. early in 1949. The Government have now realised the real nature of the problems facing the Sericultural industry and have set up a Central Silk Board at Bangalore which is

taking active interest in the re-organisation and development of the industry.

Match Industry

76. The match industry stands on a different footing from the cases which we have examined so far. In 1926 when the industry applied for protection, there were two sectors of enterprise—an Indian sector and a foreign sector controlled by a Swedish Company which afterwards became the Western India Match Company—a rupee company. The application for protection came from the Indian sector and what was desired was protection from cheap imports from Sweden and also protection from the rapidly expanding concerns of the said company in India itself. The Tariff Board by its terms of reference was not empowered to examine the second part of the claim. It was feared at the time that the larger concern would gradually oust the smaller ones. Subsequent events have confirmed this fear. In 1928 when the Tariff Board examined the claim to protection of the match industry,* the capacity of the Western India Match Company was six million gross matches a year, as against twelve million gross a year of other Companies. In 1948 the total production of the five units of the Western India Match Company was eighteen million gross a year, and the total output of about 200 units run by other Companies amounted to 7·9 million gross.

War-time Industries

77. As was pointed out earlier, a Tariff Board was constituted in 1945 for a period of two years to consider the claims for protection of industries started during the war. This Board was reconstituted in 1947 for a period of three years. The Board can recommend protection to war-time industries for a period of three years as an interim measure pending the formulation of a long term tariff policy.

The Board has so far conducted ninety inquiries including five cases of fixation of internal prices. Out of the eighty five tariff inquiries, forty six were new cases and the remaining thirty-nine related to the continuance or modifi-

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*When the Match Industry was protected no time limit was prescribed and the protection is being continued. The rate of duty is annas ten per gross of boxes or booklets *plus* the rate at which the excise duty is for the time being leviable on such matches manufactured in India *plus* 1/5th of the total duty.

cation of protection already given. The latter also included the continuance of protection to industries which were protected before the war. The Board has recommended protection for the first time to thirty-eight industries and continuance of protection to twenty-two industries. A few of the important industries which have received protection during this period are: (1) Aluminium, (2) Antimony and other non-ferrous metals, (3) Caustic Soda and bleaching powder, (4) Soda ash, (5) Textile machinery, (6) Bi-cycles and (7) Electric Motors (upto 30 H.P.). A complete list of the industries which have been granted protection between 1945 and 1950 is given in Appendix VI.

CHAPTER VI

ASSESSMENT OF THE RESULTS OF PAST POLICY

Structure of Import Tariff

78. The import tariff in India prior to 1934, was cast in the form of parts or sections each containing a list of articles liable to a particular rate or class of duty. This has since been changed into a 'Commodity Schedule' which conforms broadly to the pattern adopted in the Draft Customs Nomenclature prepared some time ago by the League of Nations. The import tariff now comprehends 22 sections, incorporating as many as 500 items specifically mentioned in the schedule.[1] The general rate of duty (now 30 per cent.) applies to all articles not otherwise specified in the schedule[2],—and to many of those which have been specifically mentioned; but of these latter there is a group of items[3] selected for specially high duties, another group subjected to protective duties[4] and yet another for specially low duties, [5] while some are entirely free.[6] As a cross division of the revenue duties a group of items carries preference for the United Kingdom and/or British Colonies.[7]

Results of Tariff Policy: Limitations of Economic Analysis

79. It is a serious limitation of economic analysis that the influence of the various factors which affect a peculiar situation cannot be studied in isolation. A variety of disturbing factors have been influencing national economies in India and abroad since the early twenties. The first Great War (1914-18), the boom of 1919-20, the crisis of 1921, the widely fluctuating exchange rates (1917-27), the post-1931 pattern of world currency alignments. the depression

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1. Indian Customs Tariff ; 31st issue, 1950.

2. Cf : Item No. 87 I.C.T., "All other articles not otherwise specified".

3. e.g. cigarettes, cigars and tobacco ; wines and spirits ; fireworks, art silk goods ; plated ware ; motor cars ; games and sports requisites ; clock and watches ; smoker's requisites ; exposed cinema films, electric lighting bulbs ; wireless apparatus etc.

4. 69 Items.

5. e.g. fuel oils, lubricants, raw film, coal-tar dyes ; printer's ink ; cotton raw ; industrial machinery and plants ; printing and lithographic materials ; wireless transmission apparatus ; railway materials ; aeroplanes and parts.

6. 62 items which include grains, pulses, wheat and rice ; dried skimmed milk ; salt ; metallic ores ; chemical manures ; sulphur ; raw hides and skins ; raw rubber; books ; diagrams, charts etc ; sugar machinery ; agricultural machinery and certain essential raw materials for industries.

7. 67 Items.

of 1929-33 and the recovery of 1934-37 were some of the world events that influenced India's economy profoundly in the inter-war years. This was also the period when economic nationalism attained a pitch unknown in the decades before the first Great War. Then came World War II (1939-45), followed closely by the partition of India in 1947. In the context of this bewildering medley of economic and political forces, it is difficult to measure the influence of tariffs on India's economy or on the growth and development of its protected industries.

Limited Application of Protective Tariff in India

80. It is even more difficult to assess the results of "discriminating protection" as such. In the *first* place, protective tariffs in India have had a limited application during the inter-war years. Before World War II protection was restricted to a few industries most of which had already been established in the country and were meeting the requirements of a sizeable proportion of the total domestic market. New industries and industries which satisfied only a small percentage of the domestic demand were excluded from the scheme of protection. Even in the case of industries already established the 'triple formula' enunciated by the Indian Fiscal Commission was as a rule rigidly interpreted and, in several cases, as we have seen in Chapter IV, the then Government of India rejected the recommendations of the *ad hoc* Tariff Boards. In the abnormal conditions created during World War II protection already granted before the outbreak of hostilities was merely continued through a series of Protective Duties Continuance Acts. Since 1945 the conditions for the grant of protection and other forms of assistance have indeed been liberalised but the benefits of protection have been confined in the main to the industries which grew up under the stress of the War, and which were assured of protection by the Government of India in 1940.

Secondly, the effectiveness of the protective duties levied before World War II was reduced by the delays that took place in the adjustment of the quantum of protection to the variations in the level of import prices resulting from dumping, exchange depreciation, and other objectionable practices which disfigured the commercial history of the inter-war years.

Finally, in some cases before World War II, the revenue duties in force at a particular level were converted into protective duties when the industries concerned were granted protection. It is difficult to express any views on

the nature and extent of revenue duties that might have been necessary on purely financial and other considerations if protective duties had not been incorporated as a distinctive element into the Indian Tariff.

Results of Discriminating Protection

81. In Chapter III we have dealt with the important changes in India's economy since 1923. The principal advantages derived from the policy of discriminating protection would appear to be—

(a) the comparative insensitiveness of protected industries to the depression;

(b) stability and diversity in production; and

(c) appreciable increase in the total industrial population.

(a) Comparative Insensitiveness to Depression

82. It is worthy of note that protected industries expanded even during the period when other industries were passing through a depression. Jute goods and pig iron were the only large-scale industries which were adversely affected during the depression of 1930-33. Other protected industries not only maintained their volume of production, but in several cases recorded substantial gains so that the total *output* after an initial setback in 1930 was continuously rising between 1930 and 1938.

A large volume of industrial activity in India is, however, carried on in small-scale or cottage industries. Their influence on the national economy can be gauged from the fact that the estimate of the annual production of cottage industry in handloom weaving worked out at that time to about 30 per cent. of the annual production in the country. This particular estimate is based on figures of yarn consumption, but in the case of other small or cottage industries estimates of output are extremely difficult to make. The comparative insensitiveness of factory production to the depression to which we referred in the previous paragraph may not thus have been a general feature of all industrial activity. The fall in the purchasing power of the agriculturists must have hit the country and the town craftsmen and artisans harder than the modern machine industries.

(b) Expansion of Protected Industries

83. The advance registered by the protected industries in India since 1923 will be evident from the following statement showing the volume of production of six major industries in 1922 as compared with the corresponding output in 1932, 1939 and 1949.

TABLE 19

Course of Industrial Production 1922 to 1949.

	1922	1932	1939	War-time Peak	1949
Steel Ingots (000 tons)	131	591	1,042	1,343	1,330
Cotton Piece-goods (mn. yds)	1,714	3,170	4,116	4,852	4,319*
Matches (mn. gross)	16	19	22	23	26
Paper and Paper Boards (000 tons)	24	40	67	98	103
Cane Sugar (000 tons)	24	153	931†	1,210	1,010

*Figures relate to 1948. † Figures relate to 1938.

It will be noticed that during the seventeen years 1922-39, the production of steel ingots expanded eight-fold; the production of cotton piecegoods increased by nearly two and a half times; the output of matches and paper registered increases of 38 per cent. and 180 per cent. respectively; and cane sugar recorded a tremendous advance from 24,000 tons in 1922 to 931,000 tons in 1938.

An idea of the part played by protective tariffs in the development of a few important industries may be had from the following statement comparing annual production immediately before World War II and in 1949 with annual production immediately before the grant of protection.

TABLE 20

Average Annual Production before and after Grant of Protection

Index Numbers: Pre-Protection=100.

	Pre-protection	Pre-war	Present
Iron and Steel—Finished steel	100	445	502
Cotton Textile—Yarn	100	161	179
Cotton Piecegoods	100	167	169
Paper & Pasteboards	100	300	515
Matches	100	206	245
Magnesium Chloride	100	250	224
Cane Sugar (White)	100	589	659

84. The expansion of the indigenous cotton textiles industry was an advantage to cultivators of cotton, as it stimulated the production of high priced medium staple cotton. The gains of the cultivator in the case of sugar-cane have been even more substantial. From 26 lakhs of acres in 1930-31, the year when protection was first granted to the sugar industry, the area under sugar-cane has increased to nearly 36 lakhs acres; area under improved varieties has increased from 1 million to 2·6 million acres; the yield per acre has improved from 12 to 14 tons; the secured market for sugarcane as denoted by the cane crushed in factories has expanded from 1·8 million tons in 1931-32 to 10 million tons last year. (c) Favourable Reaction on Cotton and Sugar-Cane

85. Another important way in which protective tariffs have tended to help Indian economy indirectly is the establishment of industries dependent on iron and steel, paper, and cotton textiles industries. A reference to this has already been made in the previous Chapter. Under the shelter of closed markets during the war a number of other small industries have developed in the country; their emergence is in no small measure due to the availability of steel and steel products manufactured in India and to the existence of industries like paper, cotton textiles etc. which provide a market for their products (*e.g.* chemicals, starch etc.). (d) Development of new industries

86. As a natural concomitant to the establishment of new industries and the expansion of the old ones, the size of the industrial population in India has been steadily on the rise. "According to the 1931 census, out of a total population of 352·8 millions, 148·8 millions were gainfully occupied in India including Burma. Of these about 100 millions were employed in agriculture, 15·4 millions were connected with industry, 2·3 millions were engaged in transport and 0·3 millions were employed in mining. It will be seen from these figures that about 10·4 per cent. of the gainfully occupied persons in 1931 were connected with industry. Similar data on employment in various occupations are not available from the Census Reports of 1941, because owing to the exigencies of the war the occupational tabulation was not carried out. (e) Shifts in employment

"Apart from the census figures no serial statistics of agricultural and non-agricultural employment are available in this country except for factories covered by the Indian Factories Act, mines covered by the Indian Mines Act, railways covered by the Indian Railways Act and

plantations growing tea, coffee and rubber. The coverage of these statistics is very small compared with the census figures. While the total industrial population according to the 1931 census is of the order of 15·4 millions, the number of persons employed in factories covered by the Factories Act in 1931 was only 1·4 millions. This enormous difference is due to the fact that the census returns included also workers in cottage industries and further the factory returns refer only to those factories in British India using power and employing 20 or more persons. Thus, statistics are not available in respect of a large section of the industrial population".* Factory returns however, reveal an increase of 74 per cent. between 1927 and 1947 in factory employment while during the same period the total population has recorded an increase of about 20 per cent. Though factory returns cannot be taken as a true index of the increase in industrial population there is reason to believe that over the last two decades or so the pattern of occupational distribution of population in India has slightly altered in favour of secondary and tertiary employment. As long as a large proportion of the country's resources remains unexploited and there is a surplus of people living on land, any measure designed to promote industry will create *new* sources of employment, thereby affording some measure of relief from the pressure of increasing population upon land.

Burden of Tariffs vs Burden of Protection

87. It now remains to consider the burden of protection on the consumer. In any analysis on this subject, it is necessary to distinguish between the burden of tariffs and the burden of protection. The burden of protection is only a part of the burden of tariffs as such. For, before the protective tariffs began to occupy an important place in the Customs schedule, the Government of India were relying more and more on import duties for revenue purposes. In several cases, as we have already stated, the grant of protection merely involved the conversion of previously existing revenue duties into protective duties at the same level. Ordinarily in such cases, protection will not impose any additional burden on the consumer. Where the original rate of revenue duty is increased in order to afford protection, it is this increase that constitutes the additional burden.

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*The Indian Labour Year Book, 1946, P. (1).

88. Protection involves a burden on the consumer which is the price which a country has to pay for an accelerated pace of industrialisation. This burden will depend on Burden of Protection

(a) *the quantum of protection granted to an industry; and*

(b) *the period for which the protective duty remains in force.*

In order to measure the burden it is, therefore, necessary to ascertain the following data about a protected industry

(i) *the rate of the protective duty,*

(ii) *the rate of the revenue duty in the event of there being no protection;*

(iii) *the period for which the protective duty remains in force;*

(iv) *the quantity imported;*

(v) *the quantity produced at home.*

(vi) *the internal market price of the commodity before protection;*

(vii) *the internal market price after protection.*

After these data have been collected, it is necessary to examine all the factors that influence the market price of the protected commodity and then to isolate the effect of the protective duty from that of the other factors It is only then that data will be available to measure the burden on the consumer of the protected article for it is not the full rise in the price of the protected commodity in the domestic market but the proportion of it attributable to the protective duty that measures the consumers burden. Further the market price of the protected commodity may vary from time to time according to the price policy of the foreign producer and the progressive increase in the efficiency of the domestic industry. For all these reasons, it is difficult in practice to isolate the effect of a protective duty from that of other factors which influence the price of a protected commodity during the period of protection. It is, therefore, hardly possible to measure the burden on the consumer quantitatively. The usual statistical methods adopted for this purpose are analytically defective and produce misleading results in their application.

Any assessment of the burden of protection on the *consumer* must, therefore, be empirical in character. To what extent the *community* as a whole is affected by this

burden will depend on the direct and indirect gains to the different sections of the community that result from the protection of an industry. The national gain derived from an industry is represented by the net addition to the national income that it makes. Profits on capital and enterprise are an item in this sum: the other items being wages, interest on capital, remuneration of persons employed in tertiary occupations, direct and indirect taxes paid to the State, increase in the net values added to the national income by agriculture and the other sectors of the economy as the direct consequence of protection to particular industries. In paragraphs 83—86 we have already discussed the nature of the benefits that have accrued to the country from the grant of protection to some major industries, *viz.*, steel, cotton textile and magnesium chloride which had practically become independent of protection by 1939, though protection was formally withdrawn in the cases of steel and cotton textiles in March 1947 and magnesium chloride in December 1948. Further during the best part of the post-war years indigenous steel and cotton manufactures have been sold at appreciably lower rates than the imported articles; and the progress of the magnesium chloride industry has been so remarkable that it has been able to develop a considerable export trade. Of the five remaining protected industries of the pre-war period, paper was de-protected in March 1947, silver and gold thread in January 1949 and sugar in March 1950, sericulture and matches being the two industries which still continue to enjoy protection Judging by this record of progress of the protected industries, it can be claimed that the policy of discriminating protection, within its limited scope, has achieved a fairly large measure of success and that on balance the direct and indirect advantages to the community of protection to these major industries offset the burden on the consumers.

Results of Post-war policy

89. It is as yet too early to assess fully the results of protection granted to new industries since 1945. Reference has already been made to the extremely difficult conditions under which they were established. The further difficulties of post-war years have hampered the technical improvements of these industries and in some cases the economical expansion of their capacity. In these circumstances it will not be surprising if it is found that the burden of protection of some of these war-time industries on the consumers has not yet been appreciably reduced.

90. In the preceding discussion we have been concerned primarily with the burden of protection as such. We have made no reference to the burden of the tariff as a whole, which we feel is part of the larger issue concerning the distribution of the burden of taxation between the different sections of the community. It is only a detailed investigation into the incidence and burden of taxation, direct and indirect, that can deal satisfactorily with this problem. We understand that the constitution of a Commission which will, *inter alia* enquire into this problem, is now under the consideration of Government. **Burden of Tariff outside our Scope**

91. It is our view that if world factors had been more favourable, and the policy of protection had been more broadly conceived and liberally implemented in a constitutional atmosphere more in harmony with national aspirations, the gaps in India's industrial set-up would have been perhaps fewer. As it is, the policy of protection has enabled a few big industries like steel, sugar, paper, cotton textiles and matches to establish themselves firmly. It has also facilitated the establishment of a number of new industries which together with the principal pre-war industries in the country, should serve as a useful nucleus round which Indian industry could be developed on approved lines in accordance with the basic requirements of the country.

BOOK III

PATTERNS OF ECONOMIC DEVELOPMENT

In this Book we propose to discuss the patterns of development in the different sectors of India's economy; for it is only against their background that it is possible to formulate proposals for the protection of or assistance to industries. In Chapter VII, we propose to discuss the basic issues underlying agricultural development because it is only on its foundations that we can build an efficient industrial structure. In Chapter VIII, we propose to describe the role of cottage and small scale industries in the scheme of industrialization. In Chapter IX, we propose to indicate the character and direction of large-scale industrial development. In Chapter X, we attempt to outline the pattern of foreign trade that will fit in with the pattern of industrial development that we visualise. In Chapter XI, which concludes this Book, we propose to analyse the role of the State in promoting those patterns.

CHAPTER VII

AGRICULTURAL DEVELOPMENT IN RELATION TO INDUSTRIALISATION

92. In the preceding chapters we have reviewed India's tariff policy and its effects, not only on the major protected industries, but also generally on the industrial economy. We shall now proceed to set out our views on the pattern of development that will fit in with the fundamental objectives of economic policy the implications of which we discussed in broad outlines in Book I Chapter II.

Significance of Agriculture in India's Economy

93. We are convinced that, in formulating a development policy for India, we should keep in the forefront the basic significance of agriculture in the country's life and economy. The reasons for this are obvious. About 67 per cent. of the population is dependent on agriculture. Further, agriculture is not merely an occupation. It is a way of life which for centuries has shaped the thoughts and outlooks of many millions of people. Also, merely from the point of view of material resources, income from it accounted for nearly 50 per cent. of the total national income according to estimates made before the Second World War.

The significance of agriculture in India's economy in fact goes deeper than this, as rationalisation of agriculture and expansion of industrialisation are closely interrelated and should be planned on a co-ordinated basis. Nearly 65 million families in India are dependent on agriculture. Owing to seasonal conditions, work in agriculture is possible for only a portion of the year—three to four months in unirrigated and approximately double this period in irrigated areas. Only 18·9 per cent. of the cultivated area is irrigated. These figures indicate the enormous volume of under-employment and disguised unemployment that exists in Indian agriculture. To realise the full extent of the evil, two more facts should be borne in mind. *Firstly,* included in the families engaged in agriculture are large numbers who are tied to the land merely because there are no other outlets. They share in the income without making more than a nominal contribution to production. *Secondly,* every year a net addition

of the order of 3 millions takes place to the numbers that work on already overcrowded holdings. What this enormous volume of disguised unemployment means in human values can be easily understood. In terms of production there will be actually an increase if all this surplus labour can be withdrawn from agriculture. A solution for this evil, which is so deep-seated in our economy, has to be sought in the *concurrent* adoption of a two-fold programme:—*firstly,* rationalisation of agriculture, *i.e.*, maximisation of production in terms of yield per acre by steadily improving agricultural methods and promoting an intensive system of mixed farming and *secondly,* drawing away the surplus labour force from land into industries—occupations subsidiary to agriculture, cottage and small-scale industries, large-scale industries and tertiary occupations.

Rationalisation of agriculture and industrial advance are thus in reality parts of a single programme. As has been well said in regard to "backward economies"—"One might consider industrialisation as one chapter of agrarian reconstruction or one might treat the improvement of agrarian production as one chapter of industrialisation. What matters is to remember that the two are inter-connected parts of one problem".* Improved agriculture benefits industries by increased production and higher quality of raw materials. Industrialisation in turn promotes agricultural development and efficiency by providing it with power, better technique and improved marketing, transport and other services. It should also be added that the combined effect is to create an internal market for goods and services which will give added impetus to agricultural and industrial production.

94. As a Fiscal Commission, we are not concerned with the questions that arise in the formulation of a comprehensive agricultural policy. Our desire is only to emphasise a point of fundamental importance in the framing and execution of such a policy. No measures for improvement will achieve successful results unless Governments can make agriculturists change their old-time outlook and arouse enthusiasm in them for new knowledge and new ways of life. There should be created in them a burning desire for a higher standard of living—a will to live better. The questions for which Governments should find an answer are—how to awaken such enthusiasm and main-

*P. N. Rosenstein-Roden. Problems of industrialisation of Eastern and South Eastern Europe—P. 202, Economic Journal, June-September 1943.

tain it at a high level and how to lift the people out of themselves and enlist their active interest and support in the task of bettering their own condition. In other words "the Central problem is psychological, not technical." The agriculturists must be made to feel how vital is the part they have to play in the nation's economy and that there is, on the side of the Government, a realisation of this and a determination by carefully planned measures, to assist them in their efforts to achieve a higher level of living. It is primarily for the Governments to find a solution for this in a spirit of sympathy and understanding; and methods of approach will probably vary in different regions. If therefore, we venture to make a few tentative observations we do so with diffidence.

Outlines of an Agricultural policy

95. We consider it important that State Governments should fix a target for increased production from agriculture which should mean an appreciable rise in the standard of living of those engaged in it within as short a period as possible after off-setting the effects of additions to the population which have taken place in the interval. There must be placed before them an objective—with practical schemes for realising it—for which the millions of families in the countryside will be prepared to face hardships and privations. The country has now a short term programme for (i) eliminating dependence on imports of food-grains and (ii) increased production of cotton and jute which are raw materials for important industries. This should merge at once with a wider plan, with definite targets, for the most efficient use of India's agricultural resources by the application of modern scientific research and the evolution of a diversified economy; and the initial target should be high enough to arouse nation-wide enthusiasm. All Governments must prepare comprehensive schemes for agricultural reconstruction to ensure increased production and a substantial rise in the standards of living of the rural population. Included in these should be the following:—

Firstly, there are major irrigation and hydro-electric projects and minor irrigation schemes. Their importance cannot be exaggerated, as India's proportion of irrigated to the total cultivated area has diminished as an effect of partition. Prior to partition, the irrigated area formed 26·5 per cent. of the total cultivated area. After partition the proportion of irrigated area to the total cultivated area is 18·9 per cent. for India and 45·2 for Pakistan. Such schemes should not be judged merely by the net return

on the capital outlay—the broader social gains should also be taken into account. In the same category are projects for dealing with lands rendered unfit for cultivation by soil erosion and for checking the colossal losses of acreage and production caused by wind and water erosion. We may say in passing that in our view the subject of land utilisation has not received the attention in India which the seriousness of the problem demands and that an expert body to study this is an urgent need.

Secondly, there are measures for improving agricultural methods by organising research on a much wider scale than at present, bringing the results of research to the fields, supplying better seeds and manures, introducing better methods of tillage and bringing where possible additional areas under cultivation. Of fundamental importance under this head is to organise a country-wide campaign for the conversion of all village and town refuse into compost. Attempt should also be made to overcome the disabilities due to fragmented holdings by co-operative methods or in other ways and also to establish a more diversified agriculture—the growing of fruits, vegetables, etc.,—including dairy farming, poultry-rearing.

Thirdly, there should be carefully devised subsidiary occupations and cottage and small-scale industries suited to different regions.

Fourthly, marketing and storage arrangements should be improved and the loss caused by insect and other pests minimised.

Fifthly, are problems connected with agricultural finance including price support measures when needed.

Sixthly, are allied measures like reform of land tenures, rural education, communications, etc.

Such programmes should cover all sides of rural life and there should be plan for immediate action with definite financial allocations. It is also important that they should be formulated in close consultation with all interests concerned and should carry with them popular support at all levels.

Organization for Agricultural Development

96. What we have said above leads us inevitably to the question of an organisation reaching down to the remotest villages which would enlist the widest support to schemes of improvement and ensure that they would be implemented in the countryside. Here again, we have no cut and dried scheme to offer. We can only make suggestions. In our view, the greatest need at present in India is an

extension service with the object of bridging the gap between research and the practices of producers,* similar to those which have been found so valuable in the U.S.A., U.K. etc. What we have in mind is an extension officer with the necessary staff for a group of 40 or 50 villages working on a demonstration farm. This officer will be the agent of all the development departments for the implementation of schemes of improvement for the villages in the centre and the guide and friend of the farmers in the area and in close contact with them; advise them on all questions connected with improvements; supply all their needs—seeds, manures, implements, etc., and assist them in every way. Each such Centre will have attached to it a committee consisting of the concerned district and other officials and influential leaders in the area. In every village under the centre there will be a multi-purpose co-operative society or a better farming society with the best leadership available, to link it up with the centre. All the centres in a district or other suitable region will be affiliated to a district or regional centre with a farm under a carefully selected extension staff and a representative committee of non-official leaders and through it to the provincial Department of Agriculture and a Provincial committee. Such an organisation will discuss regional plans at all levels, enlist popular support for them and actively help in their implementation. We also think that this organisation should undertake a campaign to inculcate the habit of saving among agriculturists for financing regional and other schemes. The Commission believes that the beginnings of such an organisation exists in several areas that it should be extended so as to cover the whole country-side and that the staffs and committees should be in the closest touch with every agriculturist family, assist in the implementation of plans of improvement and also promote the habit of saving in rural areas. The chart below shows the kind of institutional setup we have in minds.

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*"Extension or advisory services and other allied services have the following indispensable functions—instructing farm people in agricultural and domestic science and in agricultural affairs ; bringing them the latest results of research in these fields , on quality and cost as well as on the quantity of production, and teaching them improved techniques of farming and rural living ; calling the attention of research institutions to the agricultural and home problems that require study ; and providing opportunities for farm people to meet together for the purpose of learning from each other and developing leadership in agricultural affairs".

—Report on extension meeting of the F. A. O. held in Belgium in August 1949.

Government of India
Department of Food and Agriculture.
Indian Council of Agricultural Research and
Research Organisations for individual crops—Cotton, Jute, Rice, etc.;
Research Officers, Institutes in Animal Husbandry, Forestry, Irrigation.
The All-India Cottage Industries Institute and connected agencies.

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Provincial Governments
Departments of Agriculture and Food, and of Animal Husbandry, Cooperation, Industries—specially cottage and small-scale industries.
Forests: Irrigation.
Research Officers and advisory officers in the above fields
Extension Officers: Provincial Committee composed of all concerned officials and representative non-officials.

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District or Regional Councils.
A well-equipped farm or farms meeting the needs of the District or region.
Cottage Industries Institute or Institutes.
Farm and research workers: Officers in all development departments—Agriculture, Animal husbandry, Co-operation, Industries including cottage and small-scale industries, Forests, Irrigation.

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Extension officers in the district region.
Committee of the District revenue officers, the officers of Development departments mentioned and representative non-officials.

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Extension Centre for 40 to 50 villages.
Extension service officer with suitable staff and farm, seed-depot and depot for manures, agricultural implements, etc.
Representative Committee of district and development departments' officials and non-officials.

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Village Co-operative multi-purpose society or better farming society with the best village leadership available.

97. We now revert to the point we made earlier in this chapter—that when agriculture is rationalised the surplus manpower now engaged in it will have to be released and diverted to other profitable employment. What the size of this problem is it is impossible to say. Estimates have been made in the past which possess varying degrees of reliability. One writer has calculated that if, with more efficient use of human and natural resources, only 15 per cent. of the population can be shifted from food production to other pursuits, *per capita* income will be doubled and additional shifts of less than 10 per cent. will treble *per capita* income.* Another estimate of the surplus male workers in agriculture is 15½ millions for what used to be "British India".** There are also other estimates but all these can only be in their very nature rough guesses. The whole subject needs detailed study, supported by actual experience of schemes of rationalisation in different parts of the country. It will be conceded that the pattern of agriculture in India will not admit of the introduction of mechanical methods of cultivation on a large scale and that so long as one can see, the bulk of agriculture will remain in the hands of peasant proprietors working on small holdings. Even under such a regime, however, a moderate measure of rationalisation will result in fairly considerable displacements to population after allowing for improvements in irrigation, better seeds and manures, etc. and a generally diversified agricultural economy. The problem, therefore, is (i) how to replace in suitable occupations these displaced persons in, say, 20 years—their numbers are likely to be about 1½ millions a year on a conservative estimate, and (ii) concurrently with this, absorb the annual additions that take place to the population which is of the order of 3 millions. It should be remembered in this connection that the total number of persons employed in all large-scale industrial undertakings at present is about 3 millions, which roughly equals the annual increment to the population. The broad conclusions that emerge from this survey are these:

Displacement of Surplus Labour

*Quoted by Dr. B. N. Ganguli in his 'Reconstruction of India's foreign trade' Pp. 114-115 and footnote on P. 115.

**Shri Tarlok Singh "Poverty and Social Change".

This estimate is probably on the low side. Cf Louis H. Bean ; Industrialisation, the universal Need for Occupational Adjustment out of Agriculture, where the number of surplus workers in agriculture in India is estimated at 27 millions (Quoted by Eugene Staley—World Economic Development F. 6. footnote.

(i) While there is no doubt that the expansion of existing large-scale industries and the establishment of new ones especially of basic and key industries are essential in the national interests, these alone can absorb only a small proportion of those for whom every year occupation has to be found. Even so, it should be laid down that in regard to industries in which certain processes can be suitably "decentralised" these processes should be carried on in small-scale establishments, allowances being made for the private and social costs involved. Elsewhere in our report we draw attention to the large place which small-scale industrial establishments occupy even in highly industrialised countries.

(ii) An important role should be assigned in future plans to industries subsidiary to agriculture and cottage and small-scale industries and a radical change should be effected in their technique and organisation by continuous research and in other ways to enable them to meet the increased demand for profitable employment that will be made on them.

(iii) There should also be a much wider recognition than at present of the opportunities for profitable employment afforded in fairly developed economies by tertiary occupations to which attention has been drawn by Dr. Colin Clark* and systematic efforts should be made to stimulate such services and occupations.

These broad principles form the background of the proposals elaborated in the succeeding chapters of the Report.

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*Chapter V. in "The Conditions of Economic Progress" by Colin Clark.

"For convenience in international comparisons productions may be defined as primary, secondary and tertiary. Under the former we include agricultural and pastoral production, fishing, forestry and hunting. Mining is more properly included with secondary production, covering manufacture, building construction and public works, gas and electricity supply. Tertiary production is defined by difference as consisting of all other economic activities, the principal of which are distribution transport, public administration, domestic service and all other activities producing a non-material output".

CHAPTER VIII

COTTAGE AND SMALL-SCALE INDUSTRIES

SECTION A

The Background—Employment and Rural Industrialisation

98. In this Chapter, we propose to examine the role of cottage and small-scale industries in the pattern of the country's economic development. As in the case of Agriculture these industries not only provide a source of occupation to the people in rural areas but also constitute an important element in that way of life which is associated with a predominantly rural economy. In our discussion of this subject, however, we propose to eschew non-economic considerations and to base our findings on an objective appraisal of the economics of cottage and small-scale industries.

Occupational pattern

99. The basic significance of Agriculture, which was emphasised in Chapter VII is statistically illustrated by the following tables showing the proportion of gainfully occupied population to total population and the occupational distribution of the gainfully occupied population. These tables reinforce the conclusions indicated by the review of the country's past tariff policy undertaken in Book II. It will be seen from that review that although the progress of industrialisation has been appreciable in some directions, the extent to which it has influenced the structure of the country's economy has not been significant. In this, as the following tables will show, India shares a characteristic common to all Asian countries.

TABLE 21

(a) *Number and proportion of gainfully occupied population to total population in Asia and Far East*

Country	Date of Census	Gainfully Occupied Population: Number (Thousands)	Gainfully Occupied Population: Per cent
Burma	1931	6,231	42·5
Ceylon	1921	2,232	49·6
India	1931	148,817	42·2
Indonesia	1930	20,871	34·4
Japan	1947	34,222	43·5
Korea	1944	10,271	40·9
Malayan Union	1947	2,000	40·8
Phillipines	1939	8,466 (5320)*	52·9(33·3)*
Siam	1937	6,824	47·2

*Figures within brackets indicate the number and proportion of gainfully employed populations after exclusion of 3,146,000 "housewives".

(b) *Occupational distribution of gainfully employed population*

In percentages

Country	Date of census	Agriculture	Mining	Manufacturing	Transport	Trade and Commerce	Professions & Administration	Domestic service	
Burma	1931	69·5	0·6	10·8	3·6	8·9	4·5	0·7	1·4
Ceylon	1921	62·2	0·1	12·9	3·5	7·3	3·0	11·0	
India	1931	67·1	0·2	10·0	1·5	5·2	2·7	7·3	6·0
Indonesia	1930	68·8		10·6	1·5	6·2	3·3	9·6	
Japan	1947	52·3*	2·0	21·5	4·5	7·2	7·2	5·3	
Korea	1944	73·0	2·2	6·8	1·6	4·2	2·8	9·4	
Malaya	1931	60·7	12·3		6·3	10·7	3·2	6·8	
Phillipines	1939	68·8	0·9	11·3	3·8	5·1	3·0	6·2	0·9
Siam	1937	88·6	0·2	1·9	0·9	5·3	1·6	1·2	0·3

*In Japan the gainfully occupied population in agriculture including forestry and fishery, rose from the pre-war (1930) proportion of 48% to 52% as a result of changes in the economy arising from military defeat and Allied occupation.

SOURCE:—*United Nations Economic Survey of Asia and the Far East 1948 ; pp. 109-110*

More recent statistics relating to the gainfully occupied population or its occupational distribution are unfortunately not available in the countries of ECAFE region except Japan. On grounds of economy, no occupational census of the population in India was undertaken in 1941. Nevertheless, these tables are useful as an indication of the general occupational pattern in this region and when compared with similar tables in respect of the more industrially developed countries of the world offer important lessons to which we shall presently turn. The comparable statistics in respect of some industrialised countries are as follows:—

TABLE 22

Percentage distribution of the gainfully occupied population in U.K., U.S.A., Germany, France, Canada and Australia.

Country	Year	Agriculture Fishing	Mining	Manufacturing handing craft	Commerce & Transport	Administrative Domestic service etc.
U.K. . . .	1930	7	5	32	23	33
U.S.A. . .	1930	22	2	30	27	19
	1940	17	7	..	..	..
Germany . .	1933	32	4	36	19	12
	1939	26	..	..	..	..
France . .	1931	36	2	32	17	13
Canada . .	1931	31	2	25	23	19
Australia . .	1933	20	2	30	24	24

SOURCE:—*Adapted from Industrialisation and Foreign Trade, League of Nations* (1945) *and Economic Survey of Asia and the Far East, United Nations* (1948).

Principle Relating to size of Industrial Units

100. We have quoted these statistics at some length to show the enormous leeway in industrialisation that India has yet to make and the very large scope that exists for a change in its occupational pattern. As was pointed out in Chapter VII, the process of industrialisation in this country is thus seen in its true perspective as, basically a

problem of the reorganisation of India's occupational pattern. We have attempted to bring out this integral relationship between industrialisation and employment because it may help to dissipate current misunderstanding on the respective spheres of cottage and small-scale industries on the one hand and large-scale organised industries on the other. The process of industrialisation will inevitably result in a shift of employment from primary production to secondary and tertiary industries including the ancillary services. Whether this process should take the form of cottage, small-scale or large-scale industries will depend primarily on the following general considerations:—

(a) the nature of the industry—*e.g.* whether it is a defence industry, a basic industry or a consumption goods industry;

(b) the technological character of the industry, *e.g.* the extent of mechanization involved; the type of technical skill required, etc.;

(c) the relative proportions of capital and labour needed for the organisation of the industry;

(d) the extent to which de-centralisation in production in small units is economical on the basis not merely of its private cost but also of its social cost, *i.e.* the cost to the community;

(e) the rate at which it is desired to effect a change in India's occupational pattern.

It follows that, in actual practice, a decision as to whether a particular industry should be developed as a cottage or a small-scale industry or as a large-scale industry will depend on a careful assessment and balancing of all these factors. To a more detailed consideration of some of these factors we shall turn in the next Section of the Chapter.

SECTION B

The Case for Cottage and Small-Scale Industries

Definition 101. The definitions of "cottage" and "small-scale" industry are not free from ambiguity and different criteria have been suggested from time to time.** We do not propose to enter into any lengthy discussion on this subject. In

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**(i) Report of the Indian Industrial Commission, para. 206(a).

(*ii*) Report of the National Planning Committee.

(*iii*) Report of the Bombay Economic and Industrial Survey Committee (1938-40), Chapter II.

(*iv*) Reports of the U.P. Industrial Finance Committee and the U.P. Industrial Reorganisation Committee.

our view, which found general acceptance with the witnesses whom we examined, the distinction between a cottage and a small-scale industry should turn primarily on the use of hired labour. A cottage industry is thus one which is carried on wholly or primarily with the help of the members of the family, either as a whole or a part-time occupation. A small-scale industry, on the other hand, is one which is operated mainly with hired labour usually 10 to 50 hands. It will be seen that unlike some previous reports, our definition of a cottage industry does not turn on the use of power. On the contrary, we consider a wide extension of rural electrification essential for the growth and development of cottage industries. It will be also noticed that, in our view, the distinction between a cottage and a small-scale industry rests mainly on the size of the unit and the related fact of the contractual relationship between the proprietor and the workers. In practice, however, while cottage industries are generally associated with agriculture in rural areas and provide whole-time occupation only in urban areas, small-scale industries generally provide whole-time occupation to their workers and are located in urban or suburban areas.

Advantages of Cottage and Small-scale Industry—theory of social cost

102. The case for industrialising rural areas rests on the employment aspect which we have elucidated in the previous section. This principle is conditioned by the factors mentioned under (a), (b) and (c) in para. 100. For example the nature of some of the industries may make it impossible for them to be run on a cottage or a small-scale basis whereas others may be more suitable for such organisation. Similarly, the technological characteristics of some of the industries and the proportions of the capital and labour needed in their organisation will influence their size and location. The pace at which industrialisation is desired may also have a bearing on this. We shall now proceed to examine the implications of the "cost aspect" as indicated in paragraph 100.

103. The advantages of large-scale industries are generally derived from their low cost of production. The technical conditions of manufacture do not always enable a cottage or small-scale industry to avail itself of the economies of large-scale production, but this disadvantage may be partially offset by the relatively low cost of distribution. Further, a cottage or small-scale industry, owing to its methods of production and its close connection with the local market, enjoys a competitive advantage in its

ability to adjust the nature and the quality of its output to local demand. These factors affect the marginal "private cost" of an industry, but the cost that is more relevant to the consideration of the issue is the marginal "social cost". Besides the elements that enter into "private cost" there are other measurable social criteria that must be taken into account in any estimate of the "social cost" of production of an industry and it is the "social cost" thus measured that will determine the relative efficiency of cottage and small-scale industry as compared with large-scale industry.

The concept of "social cost" is familiar to students of welfare Economics and in its practical application to the problems of industrialisation in a country like India must include the following elements among others:—

(a) The cost of large investments in projects like housing, public utilities, etc., which are essential to the development of large-scale industries in urbanized areas, but may be reduced in small-scale or decentralised industries located in rural areas;

(b) The cost of "social security" which arises from fluctuations of employment in large-scale production, but the incidence of which in the case of a cottage or small-scale industry may be extremely small. This may be so either because in such an industry the worker is not wholly dependent as he is in a large-scale industry on his wage income or because the village or local market is relatively closed.

(c) The costs that must necessarily accompany any substantial deviation from traditional modes of living inevitable in the case of large-scale industries. This factor is of particular importance in a predominantly agricultural economy like ours.

If these various elements of social cost are taken into account, the gap between the unit costs of production in a cottage or small-scale industry and in a large-scale industry will be considerably narrowed.

104. Even from the point of view of *private* costs of production it may be pointed out that modern trends of technological progress are redressing the balance in favour of certain types of cottage and small-scale industries. The

substitution of electrical motors and internal combustion engines for the steam engine as a source of power has tended to reduce the economic scale of production units in certain lines of manufacture. Similarly the development of adjustable machine tools connected with the use of electric power has worked in the same direction. In certain engineering and other heavy industries, some influences have, however, strengthened the position of large-scale units through the introduction of such technological devices as the "assembly line" or otherwise, but as the role of such industries in industrially backward countries is necessarily limited, at any rate in the early stages of industrialisation, it may be reasonably claimed that modern technical developments have on the whole tended to strengthen the relative position of cottage and small-scale industries in such countries.

Cottage and Small-scale Industries in industrially advanced countries

105. It is this relative strength of *modernised* cottage and small-scale industries that accounts for the large place that these latter have always occupied in the economy of even such industrially advanced countries of the world as the U.S.A., the U.K., Germany and Japan. As this position is not always fully realised, we give some particulars about the extent of such industries in some of these countries. The evidence before the U.S.A. Senate on the Reciprocal Trade Agreements Act in 1948 brought out the fact that there were about 3,800,000 industrial establishments in the U.S.A. with 1-4 workers. A recent estimate is that "small business makes up 92·5 per cent. of U.S. business establishments, employs 45 per cent. of the country's workers, and handles 34 per cent. of its volume of business" and investigations are in progress as to the measures needed for removing the handicaps under which they suffer—*viz.*, "inability to command efficient management, lack of capital, tax problems and the unfair use of power by larger competitors".

"The dividing line between "small" and intermediate sized business has been drawn for manufacturing plants at 100 employees or less, for wholesale establishments at 200,000 dollars annual net sales and for retail enterprise with receipts of 50,000 dollars."*

In the U.K. according to an official estimate, units employing between 5 and 30 persons accounted for 29 per cent. of the employment and 19 per cent. of the outputs.

*The London Economist, December 3, 1949 and February 4, 1950.

In the pre-war Germany for which figures are available upto the 1930's, the number of small factories was considerable although the percentage was steadily declining in favour of large-scale industry. The following table will be instructive:—

TABLE 23

Factories in Germany classified by size

Year	Small Establishments 1—5 persons (*percent of total*)	Medium Establishments 16—50 persons. (*percent of total*)	Large Establishments over 50 persons (*percent of total*)
1882 . . .	55·1	18·6	26·3
1895 . . .	39·9	23·8	36·3
1907 . . .	29·4	25·9	45·6
1925 . . .	22·3	22·8	54·9

SOURCE: *Teijiro Uyeda*: *"The small Industries of Japan"; p.* 9.

In Japan, on the other hand, the cottage and small-scale industries continued to hold their own and in 1930 for which the latest figures are available to us, the small industries employed more than half the total industrial population:

TABLE 24

Percentage of Workers employed in small and large plants in Japan

Year	Number engaged in small plant		Number engaged in large plant
	Under 5 workers	Under 10 workers	Under 50 workers
	%	%	%
1920 . . .	55·6	63	70
1930 . . .	52·9	59	70

SOURCE: *ibid; p.* 9.

Section C

Problems of Development and Organisation

106. The argument of the previous section implies that cottage and small-scale industries will be able to improve their competitive efficiency only if they can avail themselves of the facilities offered by recent technological advances. This brings us to the types of assistance that these industries will require. These will necessarily vary with their nature and their place in the rural and urban economy.

Increasing interest in Cottage and Small-scale Industries

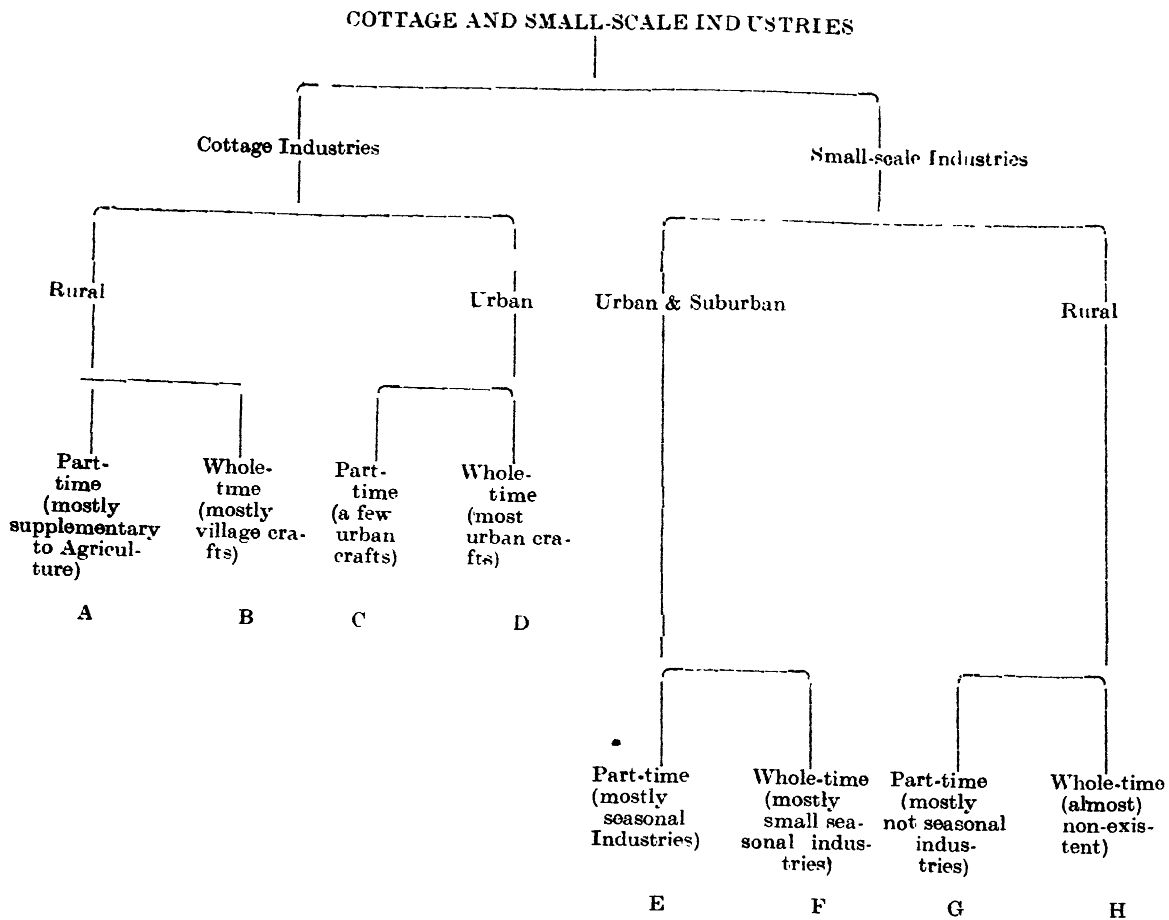
107. We received a large volume of evidence on the present position of cottage and small-scale industries in all the places that we visited. The State Government as well as informed non-official representatives were fully alive to the importance of cottage and small-scale industries and we were impressed by the considerable amount of work that was being done in many of the States to assist them. The Industrial Policy Statement of 1948 gives a strong lead in the matter as the following extract from it will show:

> "Cottage and small-scale industries have a very important role in the national economy offering as they do scope for individual village or co-operative enterprise......The Resolution of the Industries Conference has requested the Central Government to investigate how far and in what manner these industries can be co-ordinated and integrated with large-scale industries. The Government of India accept this recommendation."

Following this lead, the Ministry of Industry and Supply has set up a Directorate of Cottage and small-scale industries to supplement the efforts of the State Governments in this direction. The Directorate is supported by an All India Cottage Industries Board, which functions in an advisory capacity and meets periodically to give the Directorate necessary guidance and direction in carrying out its policy. In the circumstances, we do not propose to enter into details but will merely indicate the broad lines of policy that, in our view, the State should follow for developing the Cottage and Small-scale industries.

Type of Small-scale organisation

108. The following schematic representation will show the different sections of the industrial field that the cottage and small-scale industries now occupy and which they may be legitimately expected to cover in future with adequate organisation and assistance.


COTTAGE AND SMALL-SCALE INDUSTRIES
Cottage Industries
Small-scale Industries
Rural
Urban
Urban & Suburban
Rural
Part-time (mostly supplementary to Agriculture)
Whole-time (mostly village crafts)
Part-time (a few urban crafts)
Whole-time (most urban crafts)
Part-time (mostly seasonal Industries)
Whole-time (mostly small seasonal industries)
Part-time (mostly not seasonal industries)
Whole-time (almost non-existent)
A
B
C
D
E
F
G
H

The following are some illustrated examples of the types that we visualize:

Group A will cover all such industries as provide supplementary occupation to agriculturists, *e.g.* handloom-weaving, sericulture, basket-making, flour-grinding, bidi-making, etc.

Group B will consist mostly of village crafts, like pottery, black-smithy, carpentary, oil pressing by ghanis, handloom weaving by professional village weavers, village tanning industry, cart-making, boat building (in riverine districts), etc., these are integrally connected with the economy of Indian villages.

Group C and D. The cottage industries in the urban areas generally provide whole-time occupation to the workers engaged in them *e.g.* gold and silver thread, wood and ivory carving, brass and bell metal industry, toy making, silk fabrics, calico printing and dyeing, etc.

Group E consists mostly of seasonal industries in urban areas which engage part-time labour *e.g.* brick-making, pottery, etc.

Group F consists of small perennial factories in urban areas, like small hosiery plants, engineering factories, bobbin making, roller skins, pickers manufacture, tape-making, printing presses, etc.

Group G consists of all seasonal factories in rural areas primarily concerned with the processing of agricultural produce, *e.g.* rice and flour mills, Khandsari factories (in some areas), gur making.

Group H Small-scale industries in rural areas providing whole-time occupation (throughout the year) are extremely few, which suggests that it is in this field that the scope for the establishment of new industries is greatest. The selection of industries will depend on many factors which we discuss later. Presumably, in the initial stages, only industries involving the minimum of skill and the use of relatively light-weight material could be established—such as, say, buttons, combs, light leather

methods, and the development of the internal and external markets. We received a good deal of evidence on the pressing needs of these craftsmen and had the advantage of visiting some of their works at Banaras, Lucknow and Bangalore. The products turned out by these craftsmen comprise a medley of utility goods, semi-luxuries and luxuries, but their requirements are more or less the same, *viz.*,

(i) supply of raw materials and other ingredients;

(ii) supply of modern samples and designs;

(iii) supply of modern tools and implements, including those needed for finishing processes;

(iv) facilities for the training of artisans and their children in the manipulation and use of uptodate machinery and equipment;

(v) technical assistance for the improvement of manufacturing processes;

(vi) quality control—to ensure that quality is uniform and according to specifications.

(vii) credit facilities, both for the purchase of raw materials and the marketing of their finished products;

(viii) organization of marketing, both at home and abroad.

This list is by no means exhaustive and there are other ways in which the necessary assistance to these handicrafts can be given *e.g.* by arranging demonstrations and exhibitions or by suitable adjustments in the Stores Purchase Policy of Government, etc.

Small-scale Industries in rural areas

113. We now pass on to the problem of establishing small-scale industries in rural areas which will not only provide a source of supplementary income to agriculturists but also create new avenues of gainful employment to the excess labour now employed on agriculture. Here State policy should concern itself primarily with the following major problems:

(i) the type of rural industries to be selected;

(ii) the appropriate (rural) location of such industries;

(iii) the appropriate organization for the management and administration of such industries;

(iv) facilities for the training of executives and operatives.

In the selection and location of new rural industries the appropriate authority will have to take into account many factors including:

(a) the availability of raw materials;

(b) the nature of motive power available;

(c) the supply of labour and local managerial talent;

(d) the type of local skill or industrial tradition available in the area;

(e) the nature of rural communications, with particular reference to the source of raw materials and the market for the finished product.

In para. 108, we have indicated the type of industries that could be organized in the villages. It would seem that the rural industries that can be most economically developed are primarily those that depend on the produce of agriculture (including forests) and the manufacture of utility articles of common consumption that do not call for intense physical effort or the exercise of a high degree of skill or those that do not involve complicated technical processes. The absence of electrical power in the villages will for many years compel the rural industries to depend on other forms of motive power *e.g.* steam or oil engines. This in itself will retard mechanization of village industries and restrict industrial production to a few simple lines of manufacture. In para. 34 Chapter III we have already drawn attention to the present position about the supply and availability of electrical power in this country. Rural electrification has been actively considered in the Government of India since 1944, and is being given high priority in the last 2 or 3 years. Any large extension of cottage and small-scale industries will depend on the progress made in this respect.

Special Importance of Agricultural machinery industry

114. There is one particular industry which we should like to mention specially in this context. In the previous chapter on Agricultural Development, we emphasized the importance of rationalising agriculture and recommended that, in future plans, a predominant role should be assigned to industries connected with agriculture. The manufacture of agricultural implements should occupy an important place among these industries. Simple agricultural implements could be manufactured in small-scale establishments at selected rural centres, while the more specialized tools

and machinery could be manufactured in a number of central establishments. The latter could also supply the raw materials and technical assistance needed in the branch establishments in rural areas. A further advantage of such decentralised manufacture of agricultural implements would be the facilities that this would offer for the adaptation of agricultural tools and machinery to varying soil and climatic conditions and agricultural practices in vogue in the different regions of the country.

Problems of Organization and Administration

115. What we have said above about the large part which State initiative and assistance should play in the promotion of cottage and small-scale industries leads us to the question of the form of administrative organisation best suited for the purpose. We have already referred to the Central organisations recently established.

Linked up with these, there should be State organisations. In our view in each State there might be set up a statutory corporation aided by the State Government to be in charge of the measures which should be adopted for stimulating the growth of cottage and small-scale industries. The corporation will set up in each State research organisations; training institutes for instructors; financing and selling organisations, etc. Below these will come regional councils which will be responsible in each region, for the intensive measures needed for improving existing and establishing new industries. At this stage also training centres, financing and sales organisations, etc., will be necessary. Below the regional Councils will come organisations for individual industrial units in villages or groups of villages. At this point, the co-operative method should be applied on the largest scale possible. The organisations at all levels should also be brought into the closest contact with those dealing with agriculture as indicated in the Chart appended to paragraph 96 of our report.

Small-scale Urban Industries

116. The small-scale industries in urban areas present no such difficult organisational problems and *prima facie* there is no reason why the range of such industries should be restricted to a few lines of manufacture. Unlike their counter-parts in rural areas, they are not subject to the limitations from which the small-scale industries in rural areas suffer, *viz.*, lack of power, skilled or semi-skilled labour supply and managerial ability. Indeed the strength of these industries lies in the advantages of large-scale production which they combine with those arising from their small size which makes possible their supervision and

control by the proprietors themselves. In most of these industries, the proprietors are middle-class people who have had adequate practical training in the conduct of their business, and are familiar with the technical processes of the industries. As a source of employment to the middle class people the social importance of these industries is out of all proportion to their relative strength in the industrial sector, and we feel that the State should take special interest in their promotion and development.

The two principal handicaps of these urban industries that were brought to our notice were

(a) the loss of war time markets, and

(b) the want of credit facilities.

Many of these small scale industries grew up during the war in order to meet its miscellaneous requirements; they were thus assured of a ready market. The end of the war gradually reduced this market and the small industries were at once brought face to face with the problems of finding an outlet for their products—mostly specialized articles catering for a limited demand in the post-war years and they encountered increasing competition from the larger units in the country and also from imports from abroad. In the buyers' market during the War, quality and finish were of secondary importance, but as competition increased requirements became increasingly stringent and the small-scale industries found themselves at a considerable disadvantage as against the larger units. Secondly, the loss of the market in areas now included in Pakistan further adversely affected their fortunes. Indeed some of these industries suffered more from the loss of Pakistan market than the organized industries. For while the latter possessed well established market connections and in some cases wide marketing organisations that could be deployed in search of new markets the smaller units possessing no such facilities or organisations felt the impact of the sudden loss of traditional markets more keenly than the larger industries. We see no easy solution of the marketing problems of these small-scale industries in urban areas; this must necessarily be a long process to which both Government and the management of these industries must contribute—the former by means of direct and indirect assistance and the latter by improving quality, reducing costs, and otherwise increasing the competitive efficiency of the industries.

The other problems relating to the lack of credit facilities raise complicated issues. In Calcutta, Madras and Bombay, we received a large volume of evidence drawing attention to the present plight of these small-scale industries. Most of the witnesses were of the view that apart from current physical shortages which affected all industrial production alike irrespective of the size of units, one of the major handicaps of small-scale industries was their weak financial position—particularly shortage of working capital. As we propose to discuss this subject elsewhere in this Report, we do not wish to pursue it further at this stage, except to say that in view of the importance that we attach to the position of these small scale industries in the industrial set-up of this country, we consider that their problems must engage the urgent attention of Governments.

SECTION D

Cottage and Small-Scale Industries in relation to Large-Scale Industries

117. Having considered the positive measures which, in our view, Government should adopt to assist and develop cottage and small-scale industries, we proceed to discuss the problems of their relationship with large scale industries. Many witnesses drew our attention to the injury caused to cottage and small-scale industries by the competition of large scale industries. Thus, in many parts of India we heard complaints about the rapid decline of the village ghanis (oil pressing machines) as a result of competition from the centralized oil mills. In Madras and Bombay we were told of the gradual replacement of cottage and small-scale match factories by the products of the Western India Match Company. All over the country we heard of the plight of handloom weavers and their difficulty in securing supplies from the organised textile mills. It is not possible to dogmatise on this subject; each particular case requires detailed examination before the remedies appropriate to it can be devised. We would, however, venture to make some general remarks based on what we heard and saw in course of our tours.

Area of Co-operation

118. In an earlier paragraph, we attempted to indicate the type of industries that could be profitably established and run in rural areas, either in the form of cottage or

small-scale industries. So far as these industries are concerned, provided their manufacturing processes and marketing methods are reorganised on the lines we have suggested, we anticipate no effective competition from the large scale industries to them. These industries would be primarily concerned with the processing of local produce and selling in a predominantly local market, and if these local advantages can be exploited to the full we are confident that they will be able to hold their own against any form of fair competition from the large-scale industries. Secondly in regard to cottage crafts, which produce artistic, semi-luxury or luxury goods, *e.g.*, ivory carving, fancy cane work of various types, embroidery, lacquered ware, gold and silver ware etc. competition from large scare industries is almost non-existent. Thirdly, there are a large number of cottage and small-scale industries whose continued existence depends on the supply of materials or components for the large-scale industries, *e.g.*, tape making, bobbin making, motor cushion making, manufacture of leather goods required by textile mills such as pickers, rollers, pirns, etc. There can be little competition between large-scale and small-scale industries in this field. Fourthly, there are a large number of services that have followed in the wake of large-scale industries, which can be and are indeed carried on in small-scale establishments in suburban or rural areas in the vicinity of the large industries, *e.g.*, repair services of different types. Lastly there is a considerable field where cottage and small-scale industries can carry out many of the processes incidental to large-scale methods of manufacture. For instance, factory-made splints and veneers could, under proper conditions be economically utilised in cottage units to manufacture matches; certain processes connected with the manufacture of textiles could be carried out under controlled conditions in cottage and small-scale units. As is well known a good deal of factory production in Japan and Switzerland is carried on by this method and we have reason to think that the scope for such complementary production is considerable in our own country. Indeed, the Government of India, in their Industrial Policy Statement, 1948, have already recognised this possibility when they say that—

> "It will be examined, for example how the textile mill industry can be made complementary to, rather than competitive with, the handloom

industry. In certain other lines of production, like agricultural implements, textile accessories and parts of machine tools, it should be possible to produce components on a cottage industry scale and assemble these into their final product at a factory".

We would only add that the detailed investigations which were promised in this Policy Statement should be pressed forward with the utmost expedition and a programme of action should be drawn up as early as possible in consultation with all the interests concerned.

Area of Conflict

119. This enumeration of the different fields in which cottage and small-scale industries can be effectively coordinated and integrated with large-scale industries does not imply that there is no conflict between them. On the contrary, there are fields in which large-scale industries compete with cottage and small-scale industries. In the main, we would rely for a solution of this difficulty on the various measures of positive assistance to which we have already referred to raise the competitive efficiency of the village or small-scale industry. Nevertheless, in cases where it is established after an enquiry at which all concerned interests are represented that such an industry deserves encouragement and support and cannot develop without some form of protection against the large-scale industry, we recommend that Government should take such steps as may be necessary to safeguard its position till the positive measures to which we have referred increase its competitive position and enable it to stand on its legs. These steps may take forms as various as the delimitation of the field of production (as in the recent Government of India orders relating to cotton textiles), delimitation of markets, differential transport facilities, the use of differential excises, licensing of the industries etc. Further, when large-scale industries are planned or sanctioned, it should be the duty of the appropriate authority to have investigations made as to what processes connected with these can be suitably conducted in small-scale establishments and to see that the location of large-scale industries is so fixed as to permit of this decentralisation.

Need for pragmatic approach

120. We are unable to go into further details on this subject because the conditions of protection to the village or small-scale industry will vary from industry to industry

and again from State to State. It should be the duty of the appropriate authority to undertake a more detailed study of the problems in collaboration with the State Governments. We recognise that the interests of these industries have been often neglected in the past, and in their present unorganized condition they are at a disadvantage as against the large-scale industries. The problem cannot, however, be solved by mutual recrimination; it can be solved only by efficient organization, marketing and research.

121. In the foregoing paragraphs we have ventured to outline the role of cottage and small-scale industries in the economy of the country, and the problems that confront them. We have also indicated the forms of assistance appropriate to particular types of cottage and small-scale industries, and the nature of the administrative problems implicit in their development. We must here emphasize the fact that a positive and dynamic policy should be followed both at the Centre and in the States, continuously directed to the problems of production, finance and marketing that confront the cottage and small-scale industries all over the country in order that they may be enabled to provide the volume of employment envisaged in paragraph 97 of our Report.

CHAPTER IX

THE PATTERN OF LARGE-SCALE INDUSTRIALIZATION

122. In this Chapter, we propose to examine the role of large-scale industries in the scheme of industrial development. In para. 100, we enumerated the factors that would determine whether a particular industry should be developed as a small-scale or a large-scale undertaking. Where these factors favour the large-scale form of organization the further question arises as to the type of large-scale industries that in view of India's resources should be developed. *Prima facie* this will depend on two sets of factors—

(i) *On the supply side,*

(a) On the endowment of natural resources and

(b) On the availability of capital, enterpreneurial ability, technical know-how and labour skill —the so-called "mutable" factors of production;

(ii) *On the demand side,*

On the priorities laid down for the development of particular categories of industries in the context of the fundamental objectives of the country's economic policy or in the event of no priorities being laid down, according to market conditions.

We shall now proceed to analyse these factors and their implications.

SECTION A

Factors of Production

Natural Resources 123. In Chapter III, we indicated the deficiencies in India's natural resources in agriculture, mining and motive-power for industries. It is not merely the total

available supply of these resources that is relevant for the purposes of the present Chapter; their scarcity or abundance in relation to the available man-power and the rate of growth of population is also an important factor. For, this latter factor will determine the relative proportions in which India's physical and human resources can be most advantageously combined and thereby eventually influence the pattern of industrialization. It is, therefore, the *per capita* supply of productive resources that is significant in this context.

One basic difficulty is the uncertainty of the estimates relating to mineral reserves—particularly those heavy minerals like coal, iron ore, petroleum etc. on which the tempo and character of India's industrialization must largely depend. Geological exploration in this country has been hitherto more extensive than intensive; even so large areas of the country still remain to be mapped. Without more intensive prospecting it is difficult to claim any high degree of reliability for the estimates of mineral reserves. This comment applies with special force to the estimate of petroleum reserves. Another difficulty is about the estimate of India's water-power potential. The power-rating of Indian waterways is usually based on their calculated ordinary minimum flow, but the seasonal character of many of them, particularly in the South, coupled with other technical factors into which it is not necessary to enter, render some of these estimates somewhat unreal as a guide to practical policy. In spite of these deficiencies in our physical resources data, we have attempted to assemble them in a form that can throw some useful light on India's potentialities for industrialization. Table 25 below has been adapted from a study on a similar subject undertaken a few years ago under the auspices of the Royal Institute of International Affairs, London.

TABLE 25

Natural Resources per head

Estimates referred to last few years before 1939

	Coal and Lignite Reserves Coal Equivalent (tons/head)	Potential Water Power at Ordy. minimum flow (H.P./head)	Iron ore metal content (tons/head)	Arable and other cultivated (acres head)	Pastures (acres/head)
United Kingdom	3,700	0·15	38·1	0·28	0·40
West Continental Europe	1,510	0·20	31·4	1·09	0·47
East Continental Europe	980	0·10	4·1	1·34	0·51
U.S.S.R.	6,300	0·46	94·0	2·35	5·70
U.S.A. and Cuba	17,000	0·25	48·0	2·66	4·40
Canada & Newfoundland	37,300	2·27	217·1	5·04	6·78
South Africa	20,600	0·23	300·0	1·31	10·00
Australia & New Zealand	3,580	0·64	20·7	3·74	17·00
Argentine, Uruguay, Chile	107	0·48	12·7	4·64	18·70
India	66	0·10	5·9	1·29	0·52
China	546	0·05	1·4	0·55	1·78
Japan	227	0·10	0·4	0·23	0·11
All countries listed (average)	3,000	0·16	24·6	1·30	2·10

SOURCE:—*A. J. Brown*: *Industrialization and Trade*; *Royal Institute of International Affairs.*

Before any inferences can be drawn from the table, two qualifications should be borne in mind. *First,* the table takes into account only the present availability of a few key minerals and ignores the capacity for expansion of these and other physical resources. In an industrially backward country like India, the scope for such expansion

is greater than in the more industrially advanced countries where the margin for further resources development is either small or non-existent. For political and economic reasons, the development of India's natural resources has been hitherto seriously retarded; it is now only at the thresh-hold of its resources development plans. *Secondly*, the table takes no account of the geographical distribution of the natural resources. It is not merely the quantity of physical resources in relation to population but also their relative distribution in space that determines the comparative advantage of a country for industrial development. In this respect India is probably at a slight advantage as compared with parts of say, Canada or U.S.S.R. which, notwithstanding their relative superiority in industrial resources, suffer from severities of climate, the handicap of long distances and the inconvenient location of their basic minerals and sources of power. In spite of these qualifications, the above Table brings together a useful body of essential data bearing on a country's industrial development and focusses attention on those fundamental problems of industrial development to which we have already drawn attention *viz.* the primary importance of the development of agricultural and other physical resources as a pre-requisite for industrial advance.

The comparative figures set out in the above Table show that India belongs to that group of countries including East Continental Europe, China and Japan which possesses less than the average quantity of resources in relation to their population. But India's industrial resources, though small in comparison with countries like U.S.A., Canada, South Africa, U.S.S.R., etc., are somewhat greater than those of the other countries in the group referred to. The broad similarity between the position of India and the other countries in this group will indicate the direction and pattern of its industrial development in future.

124. Within the general limits set by these basic factors, the pattern of India's heavy industries will be determined by the natural advantages which its Iron and Steel Industry enjoys. This should normally attract a large number of industries which depend on the use and fabrication of the products of the Iron and Steel Industry, and a still larger number of lighter industries which generally grow up in the vicinity of heavy industries. Apart from this, the scarcity of India's physical resources in relation to population indicates that it will have a comparative

advantage in the establishment of industries where labour costs constitute a relatively high proportion of the total cost than in heavier industries, where capital accounts for the greater proportion of the total cost. These proportions will vary according to the relative prices of the factors of production and the technical character of the industry. For instance where labour is cheap as compared with capital, more labour will be used for the manufacture of a unit of the commodity. Similarly, where the nature of the manufacturing processes is such that, having regard to the relative prices of labour and capital, it pays to employ the latter factor more than the former, the industry will be more capital-intensive and *vice versa.*

Mutable factors of Production

125. This broad pattern would seem to receive further support from India's position in regard to the "mutable" factors of production, that is, its position as regards the supply of capital, entrepreneurial ability, technical know-how and skilled man-power. In Book V, we shall discuss at some length the problems connected with these issues and how the present deficiencies in these respects can be overcome. We do not, therefore, propose to dilate on them in this context and would only anticipate one general conclusion which we hope will be amply borne out by the argument of the subsequent Chapters. We do not think that the availability of capital in the near future will permit of any large-scale development of capital-intensive industries. Neither the creation of domestic savings nor the import of foreign capital on a scale large enough to alter the relative importance of capital and labour in our schemes of industrialization seems to be within the range of reasonable possibilities for several years to come. Similarly we do not think that we can borrow technical "know-how" on a substantial scale from the industrialized countries of the West except through international agencies or international programmes of economic development of the type of President Truman's Point Four. For, technical know-how is, by and large, tied up with foreign private capital and the scope for securing such know-how outside private foreign investments is limited, and, will be mostly confined to foreign governmental or international sources. The only mutable factor, which is capable of considerable development is managerial and operative skill. In Chapter XVI, we shall discuss the possibility of this. Broadly speaking, therefore, the conclusion, emerges that apart from executive and operative skill which is perhaps susceptible of

development in the short-period, the other mutable factors of protection are not likely to change relatively to the natural factors to such an extent as to alter appreciably the comparative advantages that labour-intensive industries now have over capital intensive industries. The industries may be roughly classified as follows on the dual basis of labour skill required and their capital content:—

(i) low-skilled and light industries—

(*e.g.* rubber, boots and shoes, other leather goods, jute and cotton textiles, soaps, etc.).

(ii) High-skilled and light industries—

(*e.g.* Engineering industries of different types, fine metal work, etc.).

(iii) Low-skilled and heavy industries—

(*e.g.* cement, fertilizers, etc.).

(iv) High-skilled and heavy industries—

(*e.g.* ship-building, iron and steel, mechanical engineering, etc.).

These groups are not exclusive of one another and many industries may well be on the border-line between these categories. From the point of view of the optimum utilization of the country's natural resources, and having regard to its present position and future prospects about the supply of capital and technical ability, the pattern of large-scale industries in India will probably consist of a large sector of industries of the first category, followed by many industries of the second and third categories and those industries in the fourth category which India must develop either for reasons of national security or because they are considered to be industries of key or basic importance. This brings us to a consideration of the broad lines of national policy as the dominant factor on the demand side, which will influence the pattern of India's industrial development.

SECTION B

Planned Development of Large-Scale Industries

126. If industrialization had been left entirely to the initiative of private entrepreneurs, the pattern of development would have been determined almost wholly by the inter-play of the natural and mutable factors of production, that is, by the quantity and disposition of physical

resources in relation to population and the supply of capital, entrepreneurial ability, technical know-how and managerial and operative skill. This pattern would have broadly conformed to the types visualized in para. 125 above. The growth of India's industries from the end of the last century to the outbreak of World War II seems to warrant this conclusion. This period represented the heyday of *laissez faire* in industrial policy and the industries that grew up were almost exclusively of the type enumerated in the first three categories. A planned policy of industrialization involving a large measure of State initiative and support may, however, deliberately foster a different pattern. We shall now proceed to consider to what extent the prevailing trends in national policy are likely to affect the pattern of future development.

Pattern of Industrial Development as visualised in Industrial Policy statement

127. No blue-print of industrial development embracing both the public and the private sectors has been drawn up so far. Presumably this will be the task of the Planning Commission recently appointed by Government. We may, however, attempt a forecast of future developments on the basis of the Industrial Policy Statement of 1948 and the reports of the Industrial Panels which were set up in 1946-47. The broad picture of the development of large-scale industries that emerges from them appears to be briefly as follows:—

(i) *defence industries,* including not only the industries concerned with the manufacture of arms, ammunition but also a large number of other highly-skilled industries like aircraft manufacture, wireless communications, cables, etc., which serve not only defence but also civilian requirements;

(ii) *heavy key industries* whose products are of such importance that any interference with supply such as might arise from a cessation of imports would bring other industries to a standstill *e.g.* Industries for the manufacture of transportation equipment, rolling stock, wagons, etc.; ship-building to the extent that it provides the nucleus of a merchant marine, etc.;

(iii) *heavy basic industries*—which provide the foundations of many other capital goods as well as consumption goods industries *e.g.* iron and steel industry, machine tools industry, automobiles, tractors and other heavy machinery;

(iv) *light basic Industries—e.g.* some important chemical industries, whose products are essential for the manufacturing processes of other industries, *e.g.* caustic soda, non-ferrous metals, electro-chemical engineering, agricultural implements, prime movers etc.;

(v) *essential consumption goods industries* with a nation-wide market *e.g.* cotton and woollen textiles, cement, sugar, paper, etc.

128. We recognize that it may not be possible for India to achieve this pattern in the near future. The country's limited resources may not permit of the establishment of all the industries included within the range of this pattern and it may be necessary to proceed step by step on the basis of an order of priorities.

Allocation of Priorities

A general indication of these priorities may, therefore be relevant in this context. In the *public sector* the order of development may be broadly as follows:—

first, the essential defence industries;

secondly, industries connected with the development of natural resources *e.g.* water-power, *i.e.* the multipurpose projects and key minerals like coal and petroleum;

thirdly, public utility industries, *e.g.* railway transportation, electric power generation (where it is state-managed), etc.;

fourthly, heavy key and basic industries which in the absence of private enterprise the state may have to initiate and develop.

In the *private sector*, it is more difficult to enforce any order of priorities, because in the absence of purposive direction of policy, it is impossible to regulate private investments along particular channels. In Chapter XI on State policy in relation to the patterns of development we shall discuss the ways in which private investments can be directly related to national policy. On the assumption that there will be a planned policy, the following order of priorities may be observed in the private sector:—

(a) the increase of production in existing undertakings upto the maximum of their installed capacity:

(b) the expansion of existing industries upto the limits of effective demand in their markets with special reference, wherever possible, to export markets;

(c) the establishment and development of industries which are complementary to existing industries in the public or the private sector, *e.g.* industries which manufacture the components of other industries or which carry the processes of production a stage nearer final consumption;

(d) the establishment of such industries as are related to existing industries and may increase the external economies resulting from the establishment of a group of connected industries;

(e) the establishment of industries catering for a large market, internal and external, rather than those satisfying a limited or specific demand.

We would emphasise that this order of priorities does not imply that our resourcse are adequate for all tehse needs or that the requirements of a particular priority group should be fully satisfied before industries in the next group can be encouraged A balanced allocation of resources not only between the public and the private sectors, but also between the different priority groups in each sector is essential and will be a matter for national planning.

Location of Industries

129. Two problems relating to the future pattern of large-scale industries require special mention *viz.*, their location and relationship with small-scale and large-scale industries.

The market economy, working through prices, cannot ensure that industries will be located at places where they are most desirable. For several items of cost are hardly reflected in prices, *e.g.* (i) security considerations, (ii) health conditions, (iii) cost of services, and (iv) the social disadvantage, in terms of under-employment, unemployment and human misery, which are not easy to measure. We have already referred to aspects of this problem in the chapter on Cottage and Small-scale Industries but the same considerations apply also to the location of large-scale industries. There is thus a *prima facie* case for the planning of industrial location. It is, however, only industries that are not tied to particular locations

that can be so planned. The site for many industries is pre-determined by their nature, their requirements of raw material, labour supply, water supply and other services that can be provided elsewhere only at a higher social cost. In the case of other industries, which are more mobile, various factors will have to be taken into account before their location can be planned. These will include—

(i) security factors;

(ii) the sources of raw material and power;

(iii) labour-supply;

(iv) communications and transport facilities;

(v) distance from the consuming centres;

(vi) the existence of related industries etc.

It is not easy in practice to decide on the most suitable location of a particular industry and practical policy suggests that in the beginning it may be wise to regulate the locational pattern of large-scale industries through negative measures which control the further concentration of particular industries in specified areas which are already congested or industrially over-specialized. Along with these negative measures positive steps may be taken to increase the attractiveness of areas where it is proposed to encourage the migration of existing industries or the establishment of new ones through the provision of basic services with the assistance of the State. A good deal of work in this direction has been done in the U.K. in connection with the development of depressed areas through the agency of "trading estates" whose activities merit most careful study.

Large-Scale Industries *vis-a-vis* Cottage and Small-Scale Industries

130. As regards the relationship between cottage and small-scale industries and large-scale industries, the possibilities of complementary production must be exploited to the fullest extent. The principle of decentralized production, on a complementary basis, has been already accepted by the Government of India in paragraph 8 of their Statement of Industrial Policy, 1948. This consideration should be kept steadfastly in view by industrial planners. In respect of industrial development schemes, whether initiated or sponsored by Government, a clear policy direction should issue to all appropriate authorities that the extent to which cottage and small-scale undertakings can be utilized to manufacture particular parts or components of large-scale industries, or to carry out some particular

processes, should be examined from all relevant aspects as soon as they decide on the establishment of any large-scale industry. The same principle applies to private industrial projects. Decentralisation of "processes" of large-scale industries in the private sector is not an end in itself but should be looked at from the point of view of national gain. The criteria should be—

(i) whether such decentralisation is likely to increase the aggregate national wealth and thus raise the standard of living of the people; and

(ii) whether it is likely to lead to wider distribution of wealth and employment.

Not all industries lend themselves to decentralisation of "processes". Some do and some do not. We have already explained the criteria to be applied. Once an expert examination has been made in each case and a decision taken (where there is a planned economy by the Planning Commission or the Tariff Board) in consultation with all interests concerned, the State should actively assist the decentralised industries by (i) provision of facilities like cheap electrical power, communications, (ii) finance, (iii) technical guidance wherever needed. These remarks apply to our references to decentralisation of processes of industries occurring in other parts of our report.

The location of large-scale industries in rural areas, instead of permitting too much concentration in urban areas is a different question. Here again there should be expert examination as to whether a particular industry can be so located and there should be sustained efforts on the part of the State to provide the assistance needed to enable this to be done on a large enough scale—such as cheap power, communications, adjustments, railway freight, etc.

SECTION C

Pace of Industrialisation

131. The pattern of large-scale industries that we visualize is in the nature of a half-way house between the highly capitalized industries of the U.S.A. and the U.K. and India's predominantly rural economy. We

believe it may be possible for the country to achieve this pattern if its natural resources and limited supplies of the more important mutable factors of production, *viz.*, capital-supply and technical ability are employed in industrial investments according to an approved plan. Even so, the strain on India's productive resources may be considerable, and it may be necessary to practise austerities in current consumption for a considerable time to come. The leeway in industrial development that India has to make is enormous. The following figures will show comparative position at a glance.

TABLE 26

Approximate manufacturing per head of population in four countries

In dollars at 1926/29 prices.

	United States	Germany	Japan	India
1896/1900 . . .	160	120	5·70	1·50
1901/05	210	130	8·50	1·90
1906/10	230	150	12	2·30
1911/13 . . .	250	170	16	2·50
1921/25 . . .	300	130	31	3·10
1926/29	350	180	41	3·50
1931/35	240	140	48	3·90
1936/38	330	210	65	4·90

SOURCE:—*League of Nations; Industrialization and Foreign Trade.*

In this context it would be hardly realistic to suggest a more intensive programme of industrialization than we visualize. Some of our witnesses have, however, advocated such a programme involving concentration on the manufacture of capital goods and other heavy basic industries on the analogy of the first two Five Year Plans in the U.S.S.R. We should, therefore, like to say a few words about the implications of this alternative programme.

132. This pattern of industrialisation involves two important consequences, both inherent in the nature of

capital goods and heavy basic industries. In the first place, the equipment necessary for these industries being heavily capital-intensive will have to be mostly imported from abroad. In the absence of foreign funds on a large scale this will increase the burden on the foreign exchanges and aggravate the balance of payment difficulties. Secondly, the fact that these investments do not produce consumption goods *pari passu* with the increases in purchasing power that they generate will increase the inflationary potential. In a predominantly rural economy, with a low standard of living where the propensity to consume and to import consumption goods is necessarily high, it may be extremely difficult if not impossible for Government to keep the inflationary potential within control.

The only practicable way of financing this type of investment would be—

(a) to obtain foreign capital and/or

(b) to increase the volume of domestic savings.

In Chapter XV we shall deal with some aspects of the problem of foreign capital. Domestic savings necessary to finance heavy investments of the type of contemplated above may be of the order of say 15 to 20 per cent. of the national income. It is doubtful if savings of this magnitude can be raised voluntarily. Consequently, it will be necessary to resort to taxation or rationing of consumption. In a country of India's size and population, where agriculturists dispersed in many thousands of villages account for the bulk of the national consumption, it will be almost impossible to enforce either the necessary taxation or administrative measures. The problem of channelling the savings, if effected, into the desired investments will present another organizational difficulty. Some capital goods industries may, however, produce the tools and equipment of other industries and thereby replace the essential imports of these articles from abroad. To this extent they will reduce the strain on the foreign exchanges. Such heavy industries, therefore, stand on a different footing from the other heavy capital goods industries.

We have refrained from discussing the effects of our industrialization policy on the pattern of international trade because they are connected with issues of foreign trade policy which we have reserved for separate treatment. To this problem we turn in the next chapter.

CHAPTER X

PATTERN OF FOREIGN TRADE

SECTION A

Industrialisation and Foreign Trade

133. We propose to discuss in this chapter the inter-relations between the industrialization of the country and the pattern of its foreign trade and the manner in which the two should be integrated with each other. For, any policy of intensified industrialization will throw up problems of foreign trade both on the import and export side which cannot be solved without a planned policy. The reciprocal relationship between national economic development and foreign trade was recognized in economic theory as early as the days of Carey and List, but this relationship was conceived almost wholly in terms of competition between foreign imports and domestic industries. For one whole generation, therefore, economic thought in this country was dominated by arguments over the *pros* and *cons* of tariffs and tariff preferences in relation to India's industrial development. The great depression of the early 1930's which brought about a collapse in the system of multilateral international trade led to the imposition of more severe restrictions than tariffs on imports in many other countries of the world. Their object was essentially defensive *viz.*,

(a) the easing of the balance of payment difficulties;

(b) the protection of industry and agriculture against cheap imports from abroad and/or

(c) the reduction of unemployment.

The outbreak of World War II for the first time brought these restrictions into use in this country, but even after the cessation of hostilities they have continued to remain in force. The distortions in the pattern of world trade, seem to suggest that India's present balance of payment difficulties will dominate its foreign trade policy for

several years to come. In this context, a planned policy in respect of foreign trade implies in the short period, the adoption and vigorous execution of all those measures that will be needed to restore the long-term equilibrium of the country's balance of payments. The manner in which equilibrium is restored will have important consequences on the pace and character of industrialization; so it is necessary to plan the country's imports and exports even in the short period. Indeed the extent to which the long term objectives of India's foreign trade policy can be reconciled with measures necessary for the restoration of the short period dis-equilibrium will be an indication of the resilience of the country's economy.

Section B

Balance of Payments

134. The broad facts about India's import and export trade during the inter-war period have been already set out in Chapter III. In this chapter we propose to discuss the pattern of India's foreign trade during the war and post-war years and to examine the relationship between it and the pattern of industrialisation we have visualized in the previous chapter. The table below shows India's visible balance of trade during these years.

War time Trade, 1939-46

Table 27

India's visible balance of trade, 1939—1945

(Rs. lakhs.)

Year	Merchandise			Treasure			Total visible balance of Trade
	Export P+G	Import P+G	Balance of Trade	Export P+G	Import P+G	Balance	
1939-40	215,95	168,97	46,98	40,79	664	3415	81,13
1940-41	200,44	161,29	39,15	18,55	324	1531	54,46
1941-42	254,46	174,75	79,71	12,21	434	787	87,58
1942-43	195,17	116,71	78,46	10,80	63	1017	88,63
1943-44	211,09	132,73	78,36	572	367	205	80,41
1944-45	228,98	231.94	—296	518	*2446	—1928	—22,24
1945-46	266.43	292.33	—25.71	742	*841	—99	—26,89

P = Private Account. G = Government Account.

*Due mainly to imports from U.S.A. of Lend-lease silver on government account to the value of Rs. 18,25 lakhs and Rs. 7,77 lakhs during 1944-45 and 1945-46.

Note.—During the war years certain exports and imports on government account *viz.*, defence stores, were not recorded in the published customs returns.

It will be seen from the above table that during 1939—46 India had a large favourable balance on private and Government account. During this period India accumulated a large sterling balances mainly on account of

(a) this favourable balance in visible account,

(b) expenditure incurred by allied armies locally in India, and

(c) war expenditure recoverable from the U.K. Government.

A substantial portion of the visible balance of trade was used to repatriate India's external public debt of the face value of £320 million at a cost of about Rs. 425 crores.

*135. In 1946 and 1947 India had large favourable trade balances on private account but heavy imports on **Post-war period**

*This section is based upon the statistics of India's balance of payments for three calendar years 1946 to 1948 as given in the Reserve Bank's Bulletin for July 1949. The figures for the three years are not comparable—the limitations arise from differences in coverage, timing and value. Further, the statement for 1948 is for the Indian Union alone and excludes all transactions of the Union with Pakistan. The statements do not seem to be altogether free from obscurity. For example, there is a large item 'errors and omissions'' which accounts for as much as Rs. 97·4 crores. Nevertheless, the investigations constitute the only attempt to throw light on this branch of India's financial statistics.

As regards Pakistan, although partition took place in August '47 no accurate data relating to the Indo-Pakistan land-borne trade are available. Last year the Director-General of Commercial Intelligence and Statistics published the tentative estimates of trade for the financial year 1948-49; these data show that 60% of India's total trade with Pakistan was land-borne; net deficit in respect of this trade was Rs. 55 crores while the Sea-borne trade showed a surplus of Rs. 22 crores.

In the February 1950 issue of the Reserve Bank of India Bulletin, estimates of Indo-Pakistan balance of payments for the period July 1948—December 1949 have been published. In the year July 1948 to June 1949 there was a deficit of Rs. 34 crores on current account---predominantly on Commodity account. This deficit was partly met by a net disinvestment on capital account of Rs. 6 crores and the rest, allowing for errors and ommisions, by the physical transfer of India notes. For the six months July to December 1949, the total deficit on current account amounted to over Rs. 9 crores. In the first half of this period the deficit was over 18 crores but in the second half there was a surplus of Rs. 9 crores. The total deficit was met by a net disinvestment of over Rs. 3 crores. The balance has been ascribed to errors and ommissions, since following devaluation of the Rupee, there has been diversion of not only the trade but the financing thereof to unofficial channels. The total current account deficit of India with Pakistan for the 18 months ending December 1949 amounted to over Rs. 43 crores.

In the current year a smaller deficit is expected with the progress of the self sufficiency drive in jute, cotton and foodgrains and with the improvement in India's export trade with Pakistan. From 1952 onwards Pakistan has to make large annual payments to India in repayment of its loan. In order that Pakistan may be able to transfer the amounts, India will either have to create an import surplus with it or utilise the latter credit to offset its net imports from other regions.

Government account especially on food and locomotives turned this into unfavourable balances. The table below shows the position for the three years.

TABLE 28

Net balances on Merchandise account

(Rs. Crores)

		1946	1947	1948
Overall . . .	Private .	55·4	23·1	81·3
	Government	−106·6	−104·1	−184·0
Hard Currency Areas .	Private .	46·3	−25·2	22·4
	Government	−48·8*	−49·5*	−52·3

*Includes Services also.

As will appear from the above table, in course of 1947 the net balance on private account in respect of hard currency areas deteriorated by as much as Rs. 71 crores and was responsible for the bulk of the over-all deficit on both private and Government account. The over-all as well as hard currency deficits in 1946 and 1947 did not present serious problems because the convertibility of sterling balances was not strictly limited, but the sharp fall in the Central reserves of the Sterling area in 1947 led to the fixation of a ceiling on convertibility early in 1948.

In 1948 large imports on government account, payment for military stores under the terms of the Indo-U.K. financial agreement, the purchase of pensions annuity and the payment to Pakistan of its share in the Sterling Balances resulted in a large reduction in these Balances, amounting to Rs. 486 crores. In the first half of 1948 there was a small surplus of Rs. 15 to 19 crores on current account. The subsequent reversal of this position (culminating in a net deficit of Rs. 63 crores over the whole year) was as much due to a fall in exports as well as an increase in imports. Whatever may have been the reason for this fall, its magnitude and persistence in the first half of 1949 indicated that deeper forces were at work. Among these were—(a) partition which deprived India of some of its important export articles, (b) internal inflation partly following from de-control in late 1948 and (c) the recession in the U.S.A. in the winter of 1948-49.

As for imports the impact of the Open General License was felt even in the second half of 1948 but not so sharply as a little later. The table below gives the quarterly figures of merchandise imports on private and Government account from April 1948 to December 1949.

TABLE 29

Movement of India's Merchandise Trade

(Quarterly totals)

(Rs. Lakhs)

	Exports including Re-exports	Imports	Balance of Trade
1948—			
II	106,92	108,98	—2,06
III	107,89	125,17	—17,28
IV	104,93	130,96	—26,03
1949—			
I	103,58	162,12	—58,54
II	93,97	175,86	—81,89
III	100,75	146,54	—45,79
IV	139,97	137,49	+2,48

Includes trade on Government account.

Unlike the Reserve Bank figures on which the observations in this section are based, these figures of merchandise trade include the sea borne trade with Pakistan. To this extent the comparability between the two sets of figures is slightly affected. We have nevertheless used these figures to indicate the progressive deterioration in India's merchandise trade balance which was not arrested till the last quarter of 1949. The table below shows the currencywise breakdown of India's balance of payments for the three half years from January 1948 to June 1949:—

TABLE 30

Balance of payments of the Indian Union

(Excluding transactions with Pakistan)

(Half yearly—from January 1948 to June 1949)

(Rs. Crores)

	Sterling Area			Dollar and other Hard currency countries			Other areas			Total		
	Re-ceipt	Pay-ment	Net	Re-ceipt	Pay-ment	Net	Re-ceipt	Pay-ment	Net	Re-ceipt	Pay-ment	Net
1948 Jan.—June	166·5	151·8	(+) 14·7	89·6	97·9	(—) 8·3	46·4	33·7	+12·7	302·3	283·2	+19·1
1948 July—December	146·6	165·2*	(—) 18·6	58·7	97·1	(—) 38·4	34·3	59·1	—24·8	239·8	321·5*	—81·7
1949 Jan.—June	156·8	217·2†	(—) 60·5	59·9	109·4	(—) 49·5	39·7	95·4	—55·8	256·3	422·0†	—165·7

* Excludes "Extraordinary" Payment of Rs. 60 crores.
† Excludes "Extraordinary" Payment of Rs. 11·9 crores.

It will be seen that with regard to the hard currency countries, the decline in India's exports was mainly responsible for the enlarged deficit between the first and the second halves of 1948, although the Government imports were an important contributing factor. Despite a fairly vigorous control over private imports and attempts to divest imports to soft currency areas the hard currency deficit for the half year ending June 1949 was as large as the deficit in the whole of 1948. In this half year the deficit with the sterling and other areas also increased. In the result by the end of June 1949 India's efforts to close the hard currency gap had merely resulted in a stabilisation of the position *vis-a-vis* this area accompanied by a deterioration in its balance of payments position with the sterling and other areas. This was the intractable problem, resulting from the comparative inelasticity of India's exports with which the country was confronted on the eve of devaluation. It is significant that in no post-war year, the quantum of India's export exceeded 3/4ths of the 1937 level. The balance of payments difficulties would have been greater but for the relative increase in export prices during the latter part of this period. Some of the reasons for the inelasticity of exports were the low level of production (under utilization of capacity, work-out plant etc.); shift of production from exports to home goods; transport bottlenecks and high costs; increased internal consumption of export goods, and export duties.

Devaluation and after August 1949 to 1950

136. As has been just said, the first half of 1949, saw one of the worst periods for exports. In September, India devalued the rupee, following the devaluation of the sterling. The net adverse balance on merchandise trade which had amounted to Rs. 46 crores in July—September 1949 was converted into a favourable balance of Rs. 2 crores in the next quarter. Exports increased by some Rs. 40 crores while imports declined by Rs. 9 crores. Recent figures indicate that the balance has increased to over Rs. 42 crores in January—March 1950 although the import of foodstuffs on Government account are excluded since the returns on this account have not yet been adjusted. Whatever may be the correct explanation of the increase in exports and the fall in imports, the improvement in India's net balance position *vis-a-vis* dollar is perhaps as much due to the stimulus given to exports by devaluation as to the severe restrictions imposed on imports from these areas even before devaluation took place. As regards the sterling and other areas, devaluation has no

doubt benefited India's exports to the devaluing countries *vis-a-vis* exports from the non-devaluing countries. But since the relative exchange rates with the sterling area and the soft currency areas have not been greatly affected, other measures for improvement in India's balance of payment position *vis-a-vis* these areas, have to be devised.

Types of disequilibrium (a) Price disequilibrium

137. The above account of the forces which influenced the course of India's balance of payments during the last five years reveals the complexity of the problem that faces the country in the present. The current disequilibrium in India's international accounts is shown in its true perspective as the resultant of at least two different types of disequilibria *viz.*

(i) price disequilibrium, and

(ii) structural disequilibrium.

The former type of disequilibrium arises from disparities in a country's internal and external cost-price relationship, while disequilibrium of the latter type results from shifts in the demand and supply conditions of internationally traded commodities or from changes in the invisible items in the balance of payments which are not brought about by changes in the relative level of prices or incomes at home and abroad.

From the course of prices during the last five years, it is clear that domestic prices have fallen out of gear with the external prices of internationally traded commodities largely because of inflationary conditions at home. Held in check till 1944-45 the inflationary potential was unleashed shortly after the cessation of hostilities, by the budgetary deficits on current and capital account. A further inflationary factor was the de-control of foodgrains at the end of 1947 and although the decision was subsequently reversed, food prices continued to rule high and through them affected the general level of prices. Inflationary condition at home affects the foreign trade balance in the short period partly through the rise in the general level of prices, which upsets the pre-existing relationship between the internal and external cost-price structure itself. Such distortion induces shifts in incomes in favour of those income groups which are connected with the production of commodities whose prices rise relatively

higher than the general level of prices. Thus domestic inflation affects foreign trade principally in two ways:—

(a) the maladjustment in the internal and external cost-price relationship widens foreign trade gap by attracting imports and discouraging exports.

(b) the distortions in the internal price structure work more deviously. They increase consumption in the sectors which happen to enjoy a differential income advantage. This results in a reduction of the quantities available for exports.

India's international accounts have been affected by both these influences during the last four or five years.

(b) Structural disequilibrium

138. The second type of maladjustment, which we have called *structural disequilibrium* has primarily resulted from the partition of the country and appears to have been a major factor in increasing the gap in India's international accounts since the end of 1947. In Chapter III we have already discussed the changes in India's economic situation which resulted from the partition of the country in 1947. In this context, we need only restate the well known fact that partition has converted a large volume of internal trade between the areas now separately demarcated into international trade. In the present context of economic conditions this has substantially added to the country's negative balance since industrial raw materials like jute and cotton which formerly occupied a prominent place in its export list now figure on the import side. This structural maladjustment has persisted on account of India's inability to effect changes in its production and consumption patterns so as to replace imports by domestic production or domestic consumption by exports. There are many causes for this failure—lack of capital and capital equipments, price and wage rigidities, inadequate incentives for enterprise in new fields of development. Comment on some aspects of these problems will be made later; at this stage we only wish to draw attention to the intimate relationship that exists in the short period between India's pattern of industrial development and the structure of its foreign trade.

Hard currency deficit

139. One particular feature of post-war maladjustment in India's international accounts which it shared with the rest of the world requires special mention *viz.* the problem of the dollar shortage. The distortions in the pattern of world production and world trade caused by the War

and its aftermath rendered it impossible for many countries to restore the pre-war multi-convertibility of their currencies and thus resulted in the creation of separate currency blocks. As long as these distortions are present it will not be enough to achieve an over-all balance in India's international account. It will be also necessary to strike a balance in respect of the principal currency blocks particularly in respect of the hard currency areas. For, while hard currencies are readily convertible into other currencies, the latter are not equally convertible into the former. The short-term problem of the balance of payments is thus complicated by this additional factor.

SECTION C

Objectives of Foreign Trade Policy

140. We now proceed to examine the objectives of India's short-term foreign trade policy. The attainment of short-term equilibrium is not a policy but only a process essential to the attainment of a policy in the same way as "balancing the budget" is not an end of financial policy, although it is an essential condition for the framing of such a policy. This distinction is too obvious to require any mention; and yet we are convinced that unless it is kept firmly fixed in the mind, means and ends may become confused and the ultimate objectives of foreign trade policy may be overlooked in the stress of current problems. We shall return to this point later, but would like to say a few words in this context about the mechanics of attaining short-period equilibrium in India's trade balance. In course of our investigations, we heard many comments on India's import control policy. While we do not wish to minimise the inconvenience that is caused to traders and industrialists by changes in import control policy, we believe that some of the criticism is based on inadequate appreciation of the circumstances in which import control has necessarily to operate and on imperfect knowledge of the main principles which guide the import control authorities in framing their half yearly programmes. We therefore consider it important that immediately after an import programme has been drawn up, a detailed statement explaining its basis should be made available to the business community. At the same time the principles and procedure that have been followed in

prescribing the monetary ceilings and fixing the allocations under the different heads and sub-heads should be fully explained. It is not enough to give publicity to the import programmes whether in official or other journals; they must also be accompanied by sufficient background information and a reasonably complete analysis of the principles on which they have been based. In this connection, witnesses emphasized the necessity of framing import licensing policy for periods longer than six months. We were glad to learn from departmental representatives whom we examined that the Ministry of Commerce was already considering the desirability of drawing up import licensing programmes on a yearly instead of the present half yearly basis. Under existing world conditions it is difficult to frame a foreign exchange budget on a long term basis. Nevertheless we consider that conditions abroad—partially in the U.K. and Western Europe—have been sufficiently stabilised to justify the attempt. If revisions are unavoidable they must be made expeditiously and fully explained to traders, industrialists and consumers.

Elements of the Short-Term Policy

141. Subject to what we have said, the aim of short-term foreign trade policy should be not merely to achieve equilibrium at an easily attainable level but to create conditions in which current foreign exchange receipts are sufficient to pay for the volume of imports necessary:—

(i) to carry out a production plan based on the most efficient use of existing productive resources and plant capacities,

(ii) to achieve a pre-determined programme of investment in essential replacements, restocking and in essential new lines of manufacture, and

(iii) to maintain a pre-determined level and structure of current consumption.

In order to attain these objectives it is necessary to attack the balance of payment problem both on the demand and supply side, *i.e.*, it is necessary not only to contrive measures to secure the economic utilization of foreign exchange resources but also to maximise earnings of foreign exchange in the short-period. These measures will include:—

(i) monetary, budgetary and other economic measures designed to achieve internal economic stability *i.e.*, what are known as "disinflationary measures",

(ii) exchange rate adjustments, *e.g.* devaluation of the currency;

(iii) adjustments in the structure of production;

(iv) bilateral or regional trading arrangements.

The first two groups of measures will be primarily concerned with the correction of the maladjustments arising from disparities between internal and external cost-price relationships (although they might indirectly affect the structure of production) while the last named measure will deal with maladjustments caused by long term changes in the production and consumption pattern. The type of bilateral or regional trading arrangements into which India has recently entered with a large number of countries is not a corrective of disequilibrium in international accounts in the sense that the other measures are. These arrangements are intended mainly to fill up the breach till the other correctives have had time to close the gap between India's foreign exchange receipts and payments.

Working of Short-Term Policy

142. A few observations may now be made on some aspects of these measures which have a close bearing on India's industrial and commercial policy—

Firstly, disinflationary measures are an essential prerequisite for the correction of disequilibrium in international accounts and we were glad to find that their importance from this point of view is now widely recognized.

Secondly, the effectiveness of devaluation of currency as an instrument for the correction of balance of payment difficulties depends on many factors like:

(a) the system of economic controls *i.e.* its monetary policy, budgetary policy, wage policy, etc.;

(b) the demand and supply elasticities of commodities and services entering into the balance of payments;

(c) the capacity of the country to adjust the structure of its production in response to realignments in internal and external cost-price relationships and its terms of trade;

(d) lastly on the repercussions of devaluation on the trade and exchange policies of other countries.

In retrospect, the economic benefits of devaluation appear to us to have been primarily of a defensive or safeguarding character. That is no small gain in a fluctuating world where about a year ago India's external economy seemed to be precariously balanced.

Thirdly, failing the requisite degree of economic collaboration within a region, structural adjustments in the pattern of consumption and production provide the most effective remedy for changes in the balance of payment position brought about by alterations in the supply and demand conditions of internationally traded commodities. The execution of such plans is, however, beset with difficulties. Patterns of consumption take time to change and the bringing about of changes will involve the imposition of austerities not always easy to enforce, while the import of the machinery, equipment and technical know-how needed to effect changes in the structure of production is rendered difficult by the existence of the disequilibrium in international accounts itself.

This vicious circle is not easy to break and however difficult, a country may be compelled by circumstances to resort to changes in its consumption pattern in the short-period in order to achieve the necessary equilibrium in its balance of payments.

Fourthly, as regards bilateral agreements it is now generally recognized that their contribution to the correction of disequilibrium in India's international accounts was small and their primary use was in the establishment of trade contacts, friendship and goodwill between India and a large number of young countries. This limited experience of bilateral agreements does not, however, warrant the expression of views on plans of regional economic development based on the lines of the Economic Recovery Programme in Western Europe. Provided, such regional plans are drawn up with the object of utilizing the natural resources of a region to the maximum extent possible and are based on the principles of economic balance they may have an important part to play in the economic development of a region *e.g.* South-East Asia and in reducing its balance of payment difficulties. These results can flow from freer economic intercourse within the region. The major practical problem that will arise in this connection will be the adjustment of the economic interests and aspirations of the countries of the regions concerned on terms of mutual advantage.

143. We have dwelt at some length on the factors bearing on India's balance of payments in the short-period because the plans for economic development must be related to them. Popular discussion on this subject usually concentrates on the visible factors *e.g.*, the various shortages that at present impede production but overlooks the less obvious inter-relations between the internal and external factors in the country's economy. In the preceding paragraphs we have attempted to bring out these relationships. We shall now proceed to examine the pattern of India's long-term foreign trade policy that would best fit in with the pattern of its industrialization.

SECTION D

Objectives of Foreign Trade Policy

144. In para. 141 we mentioned that one of the objectives of India's short-term foreign trade policy should be to carry out a production plan based on the most efficient use of existing productive resources and plant capacities, but pointed out that any large-scale structural change in the pattern of production in the short-period might be difficult to bring about. It follows that as long as this disequilibrium is not corrected the only way in which the pattern of production can be altered is as follows:—

(i) by intensive and extensive cultivation within the limits of the country's resources. This will reduce the import of essential agricultural produce like foodgrains or industrial raw materials like jute or cotton; and/or

(ii) by increasing the production of other commodities and services for which in certain markets India may have a comparative advantage (*e.g.*, textiles, chemicals, light engineering, processed agricultural produce like hydrogenated oil, etc., in the markets of the Middle and the Far East).

Already the pressure of economic forces has diverted agriculture and manufacturing to the export markets mentioned above but a good deal still remains to be done. In the course of our examination of witnesses and the discussions with representatives of the Chambers of Commerce and Trade Associations, we were advised that there was considerable scope for the expansion of India's exports of light consumption goods, in which alone it could expect to have

a comparative advantage for several years to come in the markets of the countries bordering on the Indian Ocean and the Pacific and also and that such trade would be in the best interests of India and of the other countries as well in the other inland countries in the Middle and the Far East. Apart from increased production of these commodities, price and quality will be the two handicaps which will restrict expansion of exports to these markets. These will indeed be the basic difficulties of India's export trade, and reports and investigations initiated by the Ministry of Commerce both in this country and abroad have referred to these factors.* We recommend effective action should be taken to ensure that exports conform to the standards agreed upon.

Objectives of Long-Term Foreign Trade Policy

145. While India's short-term foreign trade policy should be such as can be executed within the limits of the country's balance of payments position, the objectives of the country's long-term foreign trade policy should be:—

(i) to direct these short-term developments along channels which will eventually enable the country to consolidate its position in these fields;

(ii) to promote a pattern of import trade by means of which India can obtain the foreign resources necessary for the development of its agriculture and those cottage, small-scale and large-scale industries which it may wish to develop according to the patterns of developments foreshadowed in the previous chapters;

(iii) to promote a pattern of export trade (*i.e.*, in volume, composition and direction) that will enable India (a) to pay for its essential imports and (b) to specialise in those exports in which it may have a comparative advantage and (c) to direct its export trade to those markets in which it will have the least difficulty in maintaining its hold against competition from other countries.

146. The previous chapters on the role of cottage and small-scale industries and the pattern of large-scale industrialization will have shown that the picture of India's

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*Cf. the report of the Export Promotion Committee, 1949 and the proceedings of the meetings of the Export Advisory Council held in June 1949 and February 1950. Also the reports of Trade Commissioners published in trade journals.

industrial structure that we visualize is broadly as follows:—

(a) *A decentralized sector*—represented by cottage (rural and urban) and small-scale industries (rural and urban).

(b) *A centralized sector*—represented by large-scale units of manufacture concentrating on:

(i) Defence industries.

(ii) Heavy key and basic industries.

(iii) Light basic industries.

(iv) Essential consumption goods industries with a country-wide market.

We also pointed out that such a scheme of industrialization could be supported only by an intensified policy of agricultural and mining development. It is necessary to bear these facts in mind in outlining India's long-term foreign trade policy. This policy will fall into the following stages, in conformity with the pattern of industrialization visualised.

Stages in the Development of Long-Term Trade Policy

147. (a) *The first stage* during which large quantities of capital goods will probably have to be imported for the development of—

(i) the country's natural resources, *e.g.*, agriculture, water power, irrigation facilities, etc.;

(ii) the essential tertiary industries, *e.g.*, communications, which provide the foundations of industrial development;

(iii) the essential basic industries;

(iv) the essential consumption goods industries.

Imports will increase and exports on existing lines will also fall because an increasing proportion of raw materials and ores will be processed in the country for local consumption. In these circumstances imports can be financed by increased exports or accumulated reserves like the sterling balances or by foreign loans. The extent to which support from the first two sources is available will determine the magnitude of the strain on the foreign exchanges. Failing such support, India will have to impose stringent restrictions on the import of consumption goods. The severity of the strain will depend *inter alia* on the effect which these large-scale capital investments produce on the internal economy, in other words, on the internal monetary, budgetary and/or price control policies and their effectiveness.

(b) *The second stage*—will be reached when the capital imports tail off and the capital investments begin to produce goods and services. Imports of capital goods will gradually fall but the increased national income generated by these capital investments may increase the imports of consumption goods, unless austerities in consumption are practised on a planned basis or the increased production of consumption goods (agricultural and industrial), resulting from the capital investments is sufficient to absorb the additional income generated by them. Failing this, domestic inflation may continue and commodities may be diverted from export to domestic consumption. This, in its turn, will again increase the strain on the foreign exchanges.

(c) *The third stage*—In this stage, the secondary industries will probably increase in importance. The demand for imports is therefore likely to fall rapidly. If the output of the secondary industries expands, an opportunity will be created for the exploration of profitable new markets. The increase in exports in its turn may induce increased imports of quality or specialized goods, and thereby balance the international accounts at a sufficiently high level.

These stages in the course of India's foreign trade are purely illustrative and represent primarily a logical order of development; they do not claim to indicate any historical sequence, much less any time-schedule. Further the stages may overlap. They are, however, intended to focus attention on the nature of the long-term developments that may be visualized in India's foreign trade and its changing composition under the impact of the process of industrialization.

Direction of Foreign Trade

148. It may be reasonably expected that while India's imports of capital goods will have to be obtained mostly from the industrially advanced countries of the world, it will probably obtain its imports of primary goods, *i.e.*, agricultural or forest produce mostly from the countries of the East. India's exports will probably be divided more and more between these countries and the industrially backward countries of Asia and Africa. In respect of the products of agriculture and mines, India's trade policy should be to export them after they have been partially or wholly processed in the country. As regards the other exports, *viz.*, the lighter capital goods and the consumption goods (*e.g.* textiles, chemicals, etc.), India will probably export them more and more to the neighbouring countries in Asia and Africa. These changes will call for a purposive and sustained re-orientation of export trade. Special efforts

will be necessary both on the part of Government and private trade to switch over the domestic economy to this new pattern of exports. Government will have to create the basic conditions necessary for this change-over while private enterprise will have to explore the potentialities of the new markets and set up appropriate marketing organizations to develop the country's export trade along the new channels.

A Lesson from Japan

149. In this context we would draw attention to a page from the history of the development of the Japanese export trade immediately after the great depression of 1929-30. Till that year silk and cotton textiles constituted the two staple exports of Japan. In 1929 raw silk formed 37 per cent. of its total exports while silk and cotton manufactures constituted 28 per cent. Like the U.K. before 1914 and like our own country till lately, Japan had become dependent on a relatively small group of export commodities; to an even greater extent than the U.K. before 1914 and India of today it depended on a single country, the United States. The U.S.A. was the principal buyer of silk and in 1929 took as much as 43 per cent. of Japan's total exports. Soon after the depression, the American demand for Japanese silk fell heavily, while the scope for the expansion of cotton exports was restricted by the defensive action of other countries. Japan was compelled to develop exports of other types of manufactures. By 1939, the ratio between its traditional exports and its total exports fell from 67 per cent. in 1929 to 46 per cent. Its export of metals, however, increased from 6 per cent. to 11 per cent., engineering from 14 to 21 per cent., chemicals from 6 to 11 per cent., while it led the world in exports of artificial silk. A careful English commentator observes as follows:—*

> "The peculiar lesson of Japan is in the virtues of flexibility. The problem facing the country in 1930, when its principal market shrank, was of the same order as that which the U.K. faced in 1920; but whereas Britain dragged on for twenty years at a low level of activity, Japan set herself to it at once and in five years had accomplished a remarkable diversification of her production."

We have dwelt on these Japanese efforts at diversification of Japan's export trade between 1929 and 1937, because we consider that they have an important lesson for this

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*Economic Survey, 1919-39, W. A. Lewis (page 121).

country at the present juncture. Like the Japanese, India has also relied too long on a comparatively small group of export commodities and a small number of Countries. Diversification of exports and their distribution over a large number of neighbouring countries would be a major step in the re-organization of its export trade and an important factor in its future stability. This can, however, be achieved only by the closest co-operation between the State and private enterprise and the creation of an appropriate organization within the Ministries of Commerce and Industry to deal with the plan of action necessary to promote these long-term changes in the country's pattern of trade.

Banking and Insurance as aid to foreign trade policy

150. In an earlier paragraph we referred to the responsibility of the State for the creation of conditions necessary for bringing about the desired changes in its pattern of export trade. Two of these conditions would merit special mention. Historically the search for new markets has been accompanied by the growth of national shipping; the latter is a substantial aid to the opening up of new markets. Similarly, the establishment of Indian banking and insurance houses will also facilitate the development of India's exports in the comparatively unorganized markets of the Middle and the Far East, where the tie-up of existing financial and commercial interests may often place newcomers in the field at a disadvantage. As we propose to revert to some of these problems in a later chapter, we do not wish to pursue this subject further at this stage, except to draw attention to the intimate connection between India's foreign trade and the growth and development of its tertiary industries and other ancillary services. This connection is direct and almost functional.

We have indicated the broad lines along which India's foreign trade should develop and the need for a planned policy in respect of it, both in the short and the long periods. In the next chapter we shall pass on to a consideration of the nature of State policy in the furtherance of the patterns of development outlined in the previous chapters.

CHAPTER XI

STATE POLICY IN RELATION TO PATTERNS OF DEVELOPMENT

151. We feel that the picture of India's future pattern of development in the related fields of agriculture, industry and foreign trade which we have attempted to draw in broad outlines in the previous chapters of this Book will remain out of focus, unless we indicate the part which the State should play in its implementation.

Agriculture

152. In the field of agriculture, the views we have expressed make it clear that the State should play a predominant role both in the short and the long period. The cultivator in India is an expert within limits but he is not placed in a position to profit by improved methods owing to his meagre resources and other causes. Further, he does not possess any knowledge of the economic forces that operate in the organized markets for farm produce, although he may possess a shrewd enough understanding of the working of his local market. Lastly by the very nature of his occupation and the circumstances in which farming is carried on, unlike his industrial or commercial counterpart, he is debarred from the use of the services of voluntary organizations. In all these spheres, State policy has a large part to play, and indeed without the initiative and sustained assistance of the State, there is little likelihood of any substantial improvement in the standards of living of cultivators.

Apart from measures connected with the day to day problems of cultivation and marketing, there is the basic agrarian problem of the modernisation of agriculture. Here is a field which is almost within the exclusive purview of the State; multi-purpose projects, large-scale schemes of river irrigation and minor irrigation works; flood control, afforestation and land reclamation: widespread development of communications and transport in rural areas; and a net-work of the agricultural services essential to production and marketing—all these involve activities that can be undertaken only by the State. In an earlier chapter, we have stressed the need for Governments in India to have targets high enough to produce an appreciable increase in

standards of living after allowing for population increases that occur, so that the enthusiasm of the people may be evoked. This means, that, for many years to come, the resources of State Governments will have to be devoted in a large measure to these purposes, and also that the Central Government should supplement these efforts by assisting them especially in regard to multi-purpose and large irrigation schemes.

Small-scale Industries

153. We shall now consider the role of the State in cottage and small-scale industries. In Chapter VIII, we have already explained the place that we visualise for such industries in the economy of the country and also discussed their inter-relations with agriculture on the one hand and the organized large-scale industries on the other. State policy in regard to their development will, therefore, be concerned with the following:—

(i) The types of activities associated with the improvement of their production and marketing methods. These activities will include all forms of assistance to existing cottage industries, whether in urban or rural areas to such small manufacturing units as operate in rural areas and to all small-scale establishments in urban areas. These different types of cottage and small-scale industries will necessarily require different forms of administrative organization. Appropriate organizations would need to be set up not merely for specific purposes, *e.g.* supply of raw materials, supply of finance, provision of marketing facilities, but also to deal with the special problems of the different types of cottage and small-scale industries in respect of their requirement of these facilities.

(ii) Another major field of State activity will centre round the establishment and administration of new small industries in rural areas that may be set up in conformity with the pattern of development that we visualize. It will be the responsibility of the State to set up the right type of organizations for this purpose. Organized trade and industry might no doubt help but this will be forthcoming mostly in a consultative or advisory capacity and for specialized *ad hoc* services.

(iii) There is a third type of activity that the State will have to undertake in this connection. It will have to regulate the relations between cottage and

small-scale industries on the one hand and large-scale industries on the other and to integrate their production and distribution patterns according to the broad principles that we have suggested. Clearly this function of the State will have to be discharged in consultation with the interests concerned and with the object of maximising economic welfare.

Large-Scale Industries

154. In regard to large-scale industries State policy will be primarily concerned with:—

(i) Various forms of assistance that the existing organized industries will require. Here the role of the State will be to arrange for such necessary supplies and services as cannot be obtained without State assistance and to ensure their equitable distribution so that production may be maximised and quality ensured;

(ii) the establishment under the control and management of the Government of all such industries in the nationalised sector as it may decide on;

(iii) encouraging the establishment of such key or basic industries as need to be promoted and fostered in conformity with the desired pattern of industrial development;

(iv) giving facilities necessary for the establishment of other industries in the private sector.

This summary statement of the role of the State in the development of our large-scale industries presupposes a "mixed economy" a division of the field between the public and the private sector. The Industrial Policy Statement of 1948 lays down the respective fields of the State and private enterprise. We have already dealt with this aspect at considerable length in Chapter IX and do not propose to say anything more on it here.

Foreign Trade

155. The role of State policy in the field of foreign trade comes next for consideration. In Chapter X we have indicated the function of the State in the short as well as in the long period. It will be seen from the argument of this Chapter that in the short-period, *i.e.*, till the balance of payments position improves, it will be the responsibility of the State to exercise control over imports and exports. Subject to this, the State will promote the flow of such imports and exports as will secure the objectives of a short-term trade policy (paras. 141 to 143).

The role of the State in long-term foreign trade policy is more difficult to forecast, and will depend not merely on domestic but also on international economic developments, especially on how soon the influences underlying the currents of international trade and commerce are stabilized and the present unbalance in the disposition of the world's productive forces is corrected. It may, however, be reasonable to conclude that in order to promote the patterns of industrial development outlined in the previous Chapters, the State may have to regulate the volume and the composition of import trade, in the interests of India's long-term industrialization policy and also to encourage actively the development of new lines of export. The forms of regulation and assistance will depend on developments in national and international policy.

156. We think we have said enough to indicate, in a general way, our conception of the role of the State in the implementation of our patterns of development. This conception conforms to the terms of the Statement of Industrial Policy, 1948. One of the immediate objectives of this policy is "to promote the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community", and emphasis is placed "on the expansion of production, both agricultural and industrial". It is clear that in the field of agriculture Government visualized initiative and planned action by the State. A similar measure of special responsibility on the part of the State whether Central or State Governments, is also undertaken in respect of cottage and small-scale industries in paragraph 8 of the Policy Statement, which begins with the affirmation that "cottage and small-scale industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprise . ...".

In the field of large-scale industries, the Industrial Policy Statement was primarily concerned with delimiting the spheres of the State and private industry. The role that we visualise for State policy in the development of the pattern of our large-scale industries is in harmony with the functional delimitation proposed in the Industrial Policy Statement between the public and private sectors.

The Statement does not refer to trade policy except that it makes an incidental reference to the need for increasing the earnings of foreign exchange, but a perusal of the

foregoing paragraphs will show that there is nothing in our conception of the role of the State in this field that is not in accord with the objectives underlying the Statement of Industrial Policy or its specific terms in respect of those aspects of our economic development which it has touched.

Limits of State Policy

157. The precise measure of responsibility the State should assume will depend on essentially practical considerations—on the one hand on the capacity of the State for such developmental work and on the other on the relative efficiency of private agencies. In the Industrial Policy Statement, 1948, the Government of India admitted that while "there can be no doubt that the State must play a progressively active role in the development of industries the ability to achieve the main objective should determine the immediate extent of the State responsibility and the limits to private enterprise. Under present conditions the mechanism and the resources of the State may not permit it to function forthwith in Industry as widely as may be desirable". This, of course, is a sound attitude which finds forceful expression in the following extracts:—

> "Planning is at the same time much more necessary and much more difficult to execute in backward than in advanced countries......It requires a strong, competent and incorrupt administration (which) is just what no backward country possesses......the first objective of Planners must be to create an administrative machine that can do the work of Planning; to train young men academically and in the tasks of administration and to weed out mercilessly the incompetent and the corrupt. And, secondly, in the meantime, no administration should be loaded with tasks more numerous or more delicate than it can handle; the quality and forms of planning should be limited strictly within the capacity of the machine".*

We have nothing to add to these observations. We shall end by saying that while in the long run the country should be able to resolve this dilemma arising out of the urgency of planned development and the short-comings in the administrative machinery, in the short-period it will be forced, by these very limitations, to regulate the pace and the direction of advance and to keep it within the limits set by the capacity of the available administrative machinery. In other words, the Governments will have to concentrate in the earlier years on the most essential tasks, including in this the "creation of an administrative machine that can do the work of Planning".

*The Principles of Economic Planning--W. A. Lewis (pages 121-122).

BOOK IV

FISCAL POLICY AND INDUSTRIAL DEVELOPMENT

In this Book we propose to examine the principles that should underlie India's future fiscal policy against the background of the pattern of economic development that we have attempted to outline in the previous Book. In our Statement of the Fundamental Objectives of Economic Policy in Chapter II, we indicated the role that we visualized for tariff protection, in the planned development of India's economy. The principles of fiscal policy that we shall endeavour to outline in the Chapters that follow will be related to this role. In the first Chapter of this Book an attempt will be made to analyse the principles that should be followed in the application of protective policy to particular industries. In the next Chapter the forms and methods of protection, including some problems of tariff making will be discussed. In the last Chapter, the social aspects of protection, *i.e.*, the relation of protected industries to the community will be examined. The machinery needed for the implementation of a protective policy will be left over for discussion to a later Section of our Report.

CHAPTER XII

PRINCIPLES OF PROTECTION

SECTION A

The new Concept of Protection

The Problem

158. The case for protection to Indian industries no longer requires to be argued from the first principles. Its use as an instrument of industrial development is so widely recognized that discussions on the subject now no longer turn on the old theme of Protection *versus* Free Trade, but on practical issues of protectionist policy to some of which we shall refer in this Chapter. These problems include consideration of:—

(a) *first,* the role of tariffs in the context of a planned development of the country's industrial resources;

(b) *secondly,* the principles of selection to be applied to industries seeking protection or assistance;

(c) *thirdly,* the principles which will determine the scope and limits of protection;

(d) *lastly,* the forms and methods of protection applicable to particular cases and the technique of tariff making.

In the present Chapter, we shall deal with the first three problems, leaving the fourth to be examined in the following Chapter, along with other problems relating to the mechanics of protectionism.

159. As we have said before, the old conception of protection as an alternative of commercial policy has long given way to a more pragmatic approach. Tariff protection is now looked upon primarily as a means to an end —as one of the instruments of policy which the State must employ to further the economic development of a country. The protection of industries should be related to an overall plan of economic development: otherwise there may be unequal distribution of burdens and an un-coordinated growth of industries. However until such a plan has been approved protection to industries should continue to be granted on the principles we recommend in paragraph 161 and succeeding paragraphs.

160. As we saw in Chapter IV the principles of protection that now hold the field are those laid down in the Government of India Resolution of 1945 in which the interim Tariff Board was set up. For the sake of convenience, we reproduce these principles below:—

(1) that it (industry) is established and conducted on sound business lines; and

(2) (a) that having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost it is likely, within a reasonable time, to develop sufficiently to be able to carry on successfully without protection or State assistance; or

(b) that it is an industry to which it is desirable, in the national interest, to grant protection or assistance and the probable cost of such protection or assistance to the community is not excessive.

While many of the witnesses agreed that these conditions were more liberal than those laid down by the Fiscal Commission of 1921-22, they favoured a reformulation of policy. In particular, they did not regard the first of the conditions as altogether suitable. It was contended (i) that the requirement that an industry must be established before it could qualify for protection or assistance would be a handicap especially in regard to the establishment of heavy or technically complicated industries and (ii) that the condition about an industry being conducted on "sound business lines" was vague or uncertain inasmuch as no criteria of soundness could be laid down and it was not always easy for an industry to meet this condition, particularly if the standard was to be the average level of efficiency of the competitive industry abroad. In our opinion these criticisms are sound.

The new Scheme of Protection—Fundamental Principles

161. We shall now proceed to set out the criteria which should be applied in considering applications of industries for protection or assistance.

We first deal with industries included in approved plans. Such industries may be grouped under the following classes:—

(i) Defence and other strategic industries

(ii) Basic and key industries

(iii) Other industries

In regard to the *first* category *viz.*, Defence and other strategic industries, they should be established and maintained whatever the cost may be, on national considerations and such protection and other forms of assistance as may be needed should be given to them. *Secondly,* key and basic industries—these will apply for protection or other forms of State assistance and the fact of their inclusion in national plans will itself be justification for the grant of protection and other forms of assistance that may be needed for their development. In regard to these industries the Tariff Authority will decide the form of protection and the quantum thereof and will (i) lay down terms and conditions for the grant of protection or assistance and (ii) review from time to time the extent to which these conditions have been or are being complied with by the industries; in other words, they will be subject to the same scrutiny that Tariff Authority will exercise generally over all industries applying for protection. As regards the *third* category, these will fall into the following classes:—

(i) industries for the development of which the plan gives high priority;

(ii) industries which are complementary or ancillary to basic and key industries in the planned sectors;

(iii) other industries. In regard to this category, we suggest that the criteria to be applied should be as follows:—

"Having regard to the economic advantages enjoyed by the industry or available to it and its actual or probable cost of production, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or assistance

and/or

it is an industry to which it is desirable in the national interest to grant protection or assistance and having regard to the direct and indirect advantages, the probable cost of such protection or assistance to the community is not excessive."

Further, where an industry is included in an approved plan subject to conditions laid down by the Planning Authority and protection is applied for by the industry it should be open to the Tariff Board to consider whether any relaxation in the condition should be recommended.

As regards industries which are not included in approved plans, the Tariff Authority should examine the claim for protection on the criteria set out above and submit its recommendations to the Government.

Where no approved plan exists, the position should be as follows:—

(i) Defence and other strategic industries should be established and maintained as we have said above, whatever the cost may be on national consideration and such protection and other form of assistance as may be needed should be given to them;

(ii) As regards other industries, the criteria to be applied will be the same as those set out in the case of *other industries* included in approved plans.

SECTION B

Some Specific Issues of Protectionist Policy

162. Having examined the principles on which industries should be selected for the grant of protection or assistance, we proceed to analyse some specific issues of protectionist policy which were brought to our notice during our enquiry.

Availability of Raw material

163. *Should availability of raw materials be a condition of protection?*—It will be recalled that in the triple formula which the Fiscal Commission of 1921-22 had prescribed for the grant of protection to an industry, it was suggested that an industry asking for protection should be one possessing natural advantages, "*such as* an abundant supply of raw material, etc." No portion of the formula has been so widely criticised as this. It is clear from the phrasing of Sub-paragraph (i) of paragraph 97 of the Fiscal Commission's Report that it used the phrase more as an illustration of the type of natural advantages that an industry should possess than as a rigid pre-requisite of the grant of protection. In actual practice also past Tariff Boards did not apply this strictly. Thus in the first Report on the Paper Industry, the Tariff Board recommended the grant of protection mainly on the ground that a local raw

material, *viz.* bamboo could be developed if the paper industry could be protected against foreign competition. Similarly, in the case of the Match Industry, the Tariff Board recommended protection although the industry had to depend largely on imported aspan and almost wholly on imported chemicals. We have no hesitation in saying that local availability of raw materials should not be a condition for the grant of protection if the industry possesses other economic advantages *e.g.*, internal market, availability of labour etc.

Extent of the Market

(a) Export Market

164. *Should potential export market (in addition to the home market) be taken as an indicator of comparative advantage?*—The Fiscal Commission of 1921-22 mentioned a large "home market" as an illustration of the comparative advantages that an industry might enjoy. The importance of the home market arises from the scale of production that it permits: for this determines the level of costs in the industry. If the industry can count upon a foreign market, its scale of production will increase and its cost level will proportionately fall. It would therefore seem to be legitimate to take into account a potential export market in order to determine the comparative advantages of an industry *vis-a-vis* its rivals.

(b) Home Market

165. *Should the eventual ability of an industry to meet the whole of the domestic demand be laid down as a condition of protection?*—Although ordinarily a protected industry should be eventually able to satisfy the needs of the entire domestic market, this should not be laid down as a condition for the grant of protection and in the short period it would suffice for the Tariff Authority to consider the potentialities of the industry for expansion so as to cover a sizeable portion of the internal market within a reasonable time.

Protection to Raw Materials and stores

166. *How should an industry which produces the raw materials or stores of other industries be protected?*—The observations of the Fiscal Commission (1921-22) in paragraph 99 of its Report merit careful study. Many witnesses brought this problem to our notice and complained of

the increasing burden that was being imposed on some of the major industries in this country on account of the grant of protection to industries which produced the raw-materials or stores used by the former. It was argued that this was an additional handicap on the competitive efficiency of some Indian industries. We were told that the problem was particularly serious in some of our export industries which had to depend on high-priced indigenous raw-materials and stores manufactured in the country on account of import restrictions. Thus a well-known cotton textile firm of South India wrote to us early in January 1950 as follows:—

> "According to a recent circular issued by the Commerce Department (Chief Controller of Imports), Caustic Soda may be imported, provided the c.i.f. value does not exceed Rs. 380 per ton. The maximum price at which it can be sold by importers is Rs. 640 per ton. The difference represents Customs Duty and importers profit.
>
> If we had to buy from importers, this difference of Rs. 260 per ton would mean on our annual consumption of about 1440 tons Rs. 3,75,000 or approximately ½% on our selling prices.
>
> The duty alone even if we imported direct is **Rs. 2,25,000 per annum.**
>
> The above is only one of the many impositions on the costs of the textile industry and it is quite clear that if the industry is to fulfil its role of a major exporter, Government must see to it that it gets its raw-materials and stores at prices as nearly as possible comparable to those being paid by its competitors in Lancashire, Japan and elsewhere. Unless that is done, the export trade in the textiles must inevitably languish.
>
> This is but one of many items both of chemicals, dyes, and textile stores and accessories."

167. The complaints made in the above letter raise two different issues. One is the problem of assisting the major industries with supplies of raw-materials, stores, etc., at competitive rates and the other is the problem created by the protection of the indigenous industries manufacturing these raw-materials, stores etc. We received a good deal of evidence on both these issues. The difficulties of some of our major industries in obtaining supplies of raw-materials and stores at competitive rates are well-known; they

arise from various causes *e.g.*, high import duties (as in the case of Egyptian cotton), high control prices of agricultural raw-materials, heavy royalties on ores, comparatively high cost of power and transport (as in the case of aluminium and caustic soda which consume large blocks of power). These comparatively high costs and rates necessarily affect the competitive position of some Indian industries—particularly those that cater for export markets. We have dealt with some of these problems in the next Book of this Report. In this Chapter, we are concerned only with the effect of protection granted to the industries manufacturing raw-materials and stores on the other Indian industries which use them.

168. No general principles can be laid down for dealing with this problem, and every case will have to be examined on its merits. Broadly speaking, however, in so far as the other industries which consume raw-materials, stores, etc., of the protected industries are themselves also protected, "compensatory protection" in addition to the protection already granted to the former might counter-act the additional disadvantage imposed on them by reason of the protection granted to the indigenous industries manufacturing raw-materials, stores, etc. Similar compensation cannot, however, be made available to the other industries if they are not protected. One solution would be to "protect" the industries producing raw-materials or stores by means of subsidies rather than tariffs. The type of "compensatory action" that will be needed in a particular case will depend on—

(a) the nature of the raw-materials or stores produced;

(b) the nature of the additional burden likely to be imposed on the industries using the raw-materials or stores;

(c) the proportion that the cost of raw-material or stores bears to the total cost of manufacture of the finished products;

(d) the nature of the demand for the finished product; and

(e) other connected considerations.

The most suitable method can be worked out only by a careful analysis of these relevant factors and after the

Tariff Authority has had an opportunity of hearing the different interests concerned.

169. *Should a new or embryonic industry receive protection?*—Many witnesses raised this issue before us and contended that there was no good reason why protection should be withheld from an industry till it had established itself. We are inclined to agree that in principle it is difficult to distinguish between the claims of an industry which asks for protection after it has been established and another which seeks protection just before its establishment. The problem is not one of principle but of practice. As the Fiscal Commission of 1921-22 pointed out— **New or Embryonic Industries**

> "If applications for tariff assistance are entertained on behalf of industries, which have not yet come into existence, and the Tariff Board has to consider not facts but the anticipations of promoters, it will be a task of great difficulty to make a selection with any reasonable assurance of success. . . Further in the absence of any reliable data in regard to the cost of production it would be a matter of great difficulty to determine a reasonable rate of protection".

These difficulties are real but must be faced in any policy of planned development of Indian industries. If tariffs are to play a part in such planning, their use can hardly be ruled out merely because it is difficult to assess the anticipations of the promoters or to ascertain the probale costs of production. The need for an assurance of protection prior to actual establishment is particularly strong in those industries which require heavy capital outlay or involve a high degree of specialization in personnel and plant equipment and are likely to be subjected to intense competition from well organized and established producers abroad. In such cases, we suggest that the Tariff Authority should be asked to examine the facts and estimates relating to the industry and the nature of foreign competition that it is likely to encounter, and then advise Government as to the protection or assistance needed by the industry in the light of the conditions which we have suggested in para. 161 above.

170. There are two other questions which were brought to our notice and to which we shall briefly refer— **Agricultural Protection**

(i) the problem of agricultural protection and

(ii) the effects of internal taxation policy on the implementation of protective measures.

The first issue has been raised before us by the Ministry of Agriculture. Its memorandum refers to arecanut, jute and cotton. As regards arecanut it is pointed out that the present import duty has a protective effect: that its reduction or withdrawal will seriously affect the Indian grower as he will be unable to face foreign competition: and that the arecanut industry affords employment to large numbers of people. As regards cotton and jute, special steps are being taken to extend areas under these crops and the memorandum urges that these growers should receive protection until at least they have consolidated their position by improvements in agricultural methods and in other ways. We have given this question much thought and recommend that, if national interests require the grant of such protection, the following considerations should be borne in mind:—

(i) the number of commodities should be kept as small as possible;

(ii) the principle of selection should be—

(a) the relative importance of the agricultural raw-materials, and

(b) the volume of employment that they offer;

(iii) protection should be on an interim basis limited to short periods—never more than five years at a time;

(iv) a programme of agricultural improvement must accompany the scheme of protection and form an integral part of it;

(v) it should be the special responsibility of the Tariff Authority to report to Government annually on the progress of technological improvements in the production of these commodities.

Internal Taxation and Protection

171. Many witnesses have drawn our attention to the taxation imposed on protected articles by the Central Government and States. These fall under the following classes:—

(i) Central excises;

(ii) Sales taxes by States;

(iii) Cesses for research and other purposes by States;

(iv) Fixation of prices of raw-materials by State legislatures.

Central excises are imposed largely on revenue considerations *i.e.*, to meet budget deficits. Whenever these are imposed, the protective duties are increased proportionately and so the actual extent of protection enjoyed by the industry is not reduced in any manner. Their effect is, however, to raise the cost to the consumer of the protected commodity. On broad grounds, the levy of such excises is inadvisable and they should be resorted to only where they are needed for budgetary purposes and no alternative sources equally suitable are available.

We found a large volume of complaint against sales taxes levied by States: these were often uncoordinated and affected different areas in different ways; also a State by its law levying such a tax could affect consumers outside its own area. Most of these defects have been removed under the new Constitution. Article 286(1) prohibits the imposition of such taxes—

(i) where sale or purchase takes place outside the State—the test being where the goods have actually been delivered as a direct result of such sale or purchase for the purpose of consumption in that State, and

(ii) on import of goods into or export of goods out of the territory of India.

Also under Article 286(3) the Parliament has the power by law to declare goods "to be essential for the life of the community" and no State law authorising sales tax on such goods shall have effect unless it has been reserved for the consideration of the President and has received his assent. These provisions regulating sales taxes by States meet most of the points raised before us.

The levy of cesses for promoting research is unobjectionable so long as the rates are moderate and the whole of the tax is actually spent on research and not diverted to other purposes.

Our attention has also been drawn to legislation fixing prices of raw-materials by State legislatures. The particular instance mentioned before us was the fixation of sugarcane prices by different State legislatures on varying bases. To avoid such legitimate complaints, we consider that the Central Government should fix the prices of raw-materials of protected industries by Central legislation, whenever such price fixation becomes necessary. This is possible as, under the Constitution, "price control" is a concurrent subject.

CHAPTER XIII
FORMS AND METHODS OF PROTECTION

SECTION A

Forms of Protection

172. We shall now examine briefly some problems connected with the mechanics of protectionism—the forms of protection applicable to particular cases, and the methods that the Tariff Authority should follow in determining the quantum and period of protection.

Tariffs 173. The levy of import duties—specific or *ad valorem* has been one of the time-honoured methods of granting protection to domestic industries against competition.

In Appendix VI we include a summary of the Indian Customs Tariff indicating its present structure. The summary shows the standard and preferential rates and also the revenue and protective duties together with the items on which tariff concessions have been granted or received under the terms of the General Agreement on Tariffs and Trade. Out of about 500 items in the Import Tariff Schedule of India, 62 are free items, 35 carry specific duties and another 52 carry *ad valorem* duties with alternative specific duties or *ad valorem* duties in addition to specific duties. It may be of interest to mention that protective duties cover only 69 items of the Tariff. The remaining items numbering about 350 carry *ad valorem* duties. Of these, 39 items include articles which are assessed on the basis of their tariff values. Tariff values are normally based on the averages of the monthly market prices (excluding duty) during the 12 months ending September, as reported by the Collectors of Customs, weighted by the relative importance of the trade in each particular article at each of the main ports, and modified where necessary in the light of the proposals received by the Collectors of Customs, or on the strength of the documentary or other evidence produced by the trade or in consideration of the future trend of prices. There are about 120 tariff valued articles in the Indian Customs Tariff. The number is apparently small in comparison with the total number of commodities assessable on the *ad valorem basis*. New tariff value heads are introduced

into the Indian Customs Tariff after due consideration of the following points *viz.,* (1) imports of the articles concerned are sufficiently large or significant, (2) their market prices are easily ascertainable and do not fluctuate widely, and (3) there are not too many varieties of the articles in question and the differences between the prices of those varieties are not too great. It will be seen that *ad valorem* duties still occupy a predominant place in the Indian Customs Tariff and although the Fiscal Commission of 1921-22 had recommended that the system of specific duties and tariff valuations might be extended cautiously, progress in this direction has been rather slow. It may be of interest to mention that of the 500 items in the Indian Customs Tariff, protective duties cover only 69 items.

The relative merits and drawbacks of the system of *ad valorem* and specific duties and tariff valuations in Indian conditions were discussed at considerable length in Chapter XIV of the Report of the Indian Fiscal Commission of 1921-22. It is unnecessary for us to go over the same ground again, except to point out that under existing conditions of world production and trade, and the uncertainties that attend on them in the short period, the system of *ad valorem* duties would seem to offer the best guarantee of protection to indigenous industries. If the prices of imports rise markedly during the currency of tariff protection, specific duties will not afford the full measure of protection intended by the Legislature; while if they fall suddenly the protection may prove to be excessive. For the same reason, tariff valuations are also unsuitable in a period of rapidly fluctuating prices.

174. The choice of a particular form of import duty would depend on the following considerations:

(a) *The nature of the Commodity.*—A specific duty can be imposed in cases where there is little variation in the quality of the article or it is possible to define the different qualities of an article with sufficient accuracy in the trade classifications in the import list. Thus it may be impossible to impose specific duties on articles like some kinds of wearing apparel which have a wide range of value per unit.

(b) *The administrative problems involved in the appraisal of value for Customs purposes.*—Where the imported commodity has no competitive market,

current wholesale value becomes difficult to ascertain and customs authorities are forced to rely on the alternative method of assessment based on landed cost. If the article concerned is subject to an *ad valorem* duty, the latter method may lend itself to false invoicing, which it may not be always easy to detect. If the rate of the *ad valorem* duty is high, the temptation for evasion increases and puts a severe strain on the customs staff. In these circumstances, a specific duty may be administratively preferable to an *ad valorem* duty.

175. While on this subject of tariffs, we should like to commend one suggestion for the consideration of Government. As is pointed out later one lacuna in the present system of protection to Indian industries is the absence of an "after-care" organization to provide the facilities necessary for the rapid development of protected industries. In the case of small-scale industries, particularly of those that were set up during the war and received protection under the terms of the assurance conveyed to war-time industries, these facilities would need to be provided by the Government, sometimes initially at their own cost. Apart from the administrative arrangements, financial provision on a *continuing basis* will also be required for this developmental work. For this it has been suggested that a Development Fund could be created by setting aside every year a portion of the revenue collections from protective tariffs. With such a Fund subsidies in lieu of or in addition to protective tariffs can be given more freely than is possible under the budgetary conditions of the present. In the section of this Chapter dealing with subsidies. this suggestion is further considered.*

The economic advantages of subsidies as distinct from tariffs are recognised, but in practice the former occupies a comparatively minor role in the system of protection in

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*In this connection, the following extracts from the Report of the Informal Committee on the Australian Tariff may be read with interest : "We suggest as a further objective (of tariff policy) that all revenue derived from protection should be allocated to the protective purposes intended and that it should be used for bounties and not for ordinary Government expenditure.... We realise the practical difficulties....but if the proposals are sound it is always possible to work towards them...For example it is immediately possible to establish the principle that bounties are the most economical method of giving protection, and we suggest that a trust fund should be established as a matter of policy. At least some of the revenue derived from protection could be diverted to this Fund (pp. 108-109).

this and many other countries, largely because of administrative and political difficulties. A Development Fund will remove some of these difficulties and enable a consistent and continuing policy to be pursued from year to year.

176. Next to tariffs, quantitative restriction at present figures prominently in the armoury of protection in many countries. It is argued by ardent protectionists that unforeseen changes in prices and costs, both at home and abroad —so common in the disturbed conditions of the present— affect the effectiveness of tariffs and thereby fail to inspire confidence in the minds of the domestic producers. Governments, therefore, resort to quantitative restriction of imports which lays down in advance the maximum quantities of imports that may be permitted in a period of time. Theoretically, it is possible to fix a particular rate of duty that would ensure the flow of that amount of imports which it is desired to obtain through quantitative restrictions, but owing to the unpredictable factors mentioned above, this duty would need periodical revision. Both quantitative restrictions and tariffs result in an increase of prices following from a limitation of supplies. In the case of the latter the profits from such increase accrue partly to the Government of the country imposing the tariffs and in the case of the former they do not. In a regime of quantitative restrictions, there is always the fear that the domestic consumer may be exploited by monopoly organizations—either of foreign suppliers or of domestic producers. **Quantitative Restrictions**

An important objection to quantitative restrictions is that they sever the connection between the price levels of the home country and the outside world. Under tariffs, price systems at home and abroad remain in contact and tend to move in the same direction. A given adjustment in the balance of payments in a regime of tariffs is, therefore, likely to involve less price fluctuations than a similar adjustment in a regime of quantitative restrictions. Indeed the rigid fixation of the quantities of imports introduces an element of rigidity in the balance of payments—the more the number of goods subjected to such restrictions, the more difficult it is to make the necessary adjustments in the balance of payments. This is one reason why quantitative restrictions tend to increase Government interference in foreign trade.

The use of quantitative restrictions requires the prescription of quotas for particular exporting countries and for particular importing firms. This is necessary as the use of global quotas—that is, the mere fixation of the total amount permitted to be imported in a defined period without reference to the sources of imports—prejudices the relatively more distant exporters and tends to impart an undesirable seasonality to the flow of imports. The laying down of quotas for individual exporting countries will open the door wide for discrimination even if quotas are fixed with reference to particular base years considered as normal. International customs conventions have so far failed to devise satisfactory yard-sticks by which to decide whether particular quota allotments conform to the Most-Favoured-Nation clause or not. Actually in the inter-war years quotas were widely resorted to as an escape from the non-discriminatory implications of this clause. The discriminatory potentialities of quotas are considerable and need to be particularly emphasised in view of the fact that any country practising quantitative restrictions is likely to invite retaliation from aggrieved foreign countries.*

177. For all these reasons we recommend that for purposes of protection to domestic industries, in normal cases, quantitative restrictions should be used sparingly. Temporary quantitative restrictions would, however, be justified for abnormal imports. In a later Chapter we shall have occasion to discuss the subject again in the light of the provisions of the Havana Charter but our conclusion on the suitability of quantitative restrictions as a form of protection is based on general grounds rather than on the provisions of the Charter.

The attitude we have described above has been reflected in recent recommendations of the Tariff Board. Generally speaking the Board has recommended quantitative restrictions on imports of the following forms:

(a) Imports to be permitted to meet only the special requirements of consumers (*e.g.* small tools, alloy tool and special steels);

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*Cf. the views of Professor Haberler :

"Even under the most discriminatory form of tariff such as triple decker fighting tariff, no such degree of or opportunities for discrimination were possible if only because (*a*) there was a norm (the minimum tariff) toward which the rates applicable to different countries tended to move and which, once attained, assured equality; and (*b*) the nature and extent of the discrimination were public knowledge and thus amenable to public sanction, while the bases of the apportionment of quotas (and consequently tangible evidence of discrimination) can be, and in fact often have been concealed."

Quantitative Trade Control—League of Nations (1948), page 26.

(b) Imports to be stopped for a specified period (*e.g.* grinding wheels and soda ash);

(c) Imports to be permitted on condition that the importer, or the consumer directly importing the article, purchases a certain quantity or number of the corresponding indigenous article in specified proportions (*e.g.* two tons of indigenous ferro-silicon for every ton imported; an equal number of indigenous plywood tea-chests for the number imported); or

(d) Imports to be allowed to meet such portions of the domestic demand as are in excess of the indigenous production.

178. Quantitative restrictions and tariffs both increase prices to the consumer. There are methods by which such increase can be either partly or wholly avoided. A subsidy is one such method. Instead of raising the price of the imported commodity to the level of the fair selling price of the domestic product through a protective duty, Government may choose to reimburse the domestic producer through a subsidy for any loss that he may sustain by having to sell his product at the landed cost of imports. As a general rule subsidies would be preferable to tariff protection in the following cases:— **Subsidies**

(i) when domestic production meets only a small fraction of domestic demand;

(ii) when the commodities concerned are essential raw materials or adjuncts of production;

(iii) when the manufacture of certain quantities or grades of a commodity produced in the country needs protection, but it is difficult for purposes of a levy of import duty to distinguish these grades or qualities from others against which no protection is needed.

It is possible to reduce the burden on the exchequer by combining subsidy with a low protective duty. The rate of the protective duty should be so fixed and regulated from time to time that its yield is sufficient to cover the subsidy.

The defects of subsidies are primarily administrative:—

(i) The payment of subsidies to individual industrial undertakings requires careful control over the volume and quality of production and unless the administrative staff is of a high order of efficiency,

abuse is possible, particularly in industries consisting of large numbers of constituent firms.

(ii) As subsidies must come out of the public exchequer they are considered to be less secure than protective tariffs being more directly connected than the latter with the budgetary position and prospects of a country.

(iii) Subsidies involve the raising of revenue from the general tax-payer.

The advantages of subsidies are well-known:

(i) they do not raise prices except through the general influence of taxation;

(ii) they require payment only on the goods produced locally, while duties require payment on all the goods consumed;

(iii) they make it easy to discriminate between the grades of goods which can be produced at home and those which cannot be and to leave the latter free from taxation;

(iv) their cost is definitely known and felt.

Our suggestion for the creation of a Development Fund is intended to obviate some of these difficulties and to make the wider adoption of this form of protection possible.

According to the I.T.O. Charter subsidies for the promotion of economic development, the diversification of industry and the protection of national security are not forbidden.

Pooling

179. The financial burden that subsidies impose on Government may be sometimes reduced by combining these suitably with tariffs. The Government may arrange to have the imports pooled with the domestic output and the aggregate quantity sold at a uniform price, which may lie at some point within the range fixed by the fair selling price of domestic producers and the landed cost for imports. Thus it is possible to limit the increase of price above the landed cost to a comparatively low figure if the rate of duty on imports is so fixed that the total customs receipts are just sufficient, after covering the costs of administration, to reimburse the domestic producers for any loss that they may incur by having to sell at the fixed pool price. This scheme is *prima facie* attractive but some difficulties may be indicated. Unless the indigenous production of the article is sufficiently centralised, it will be

difficult to forecast the output for any reasonable period in advance. Similar difficulties of forecasting apply also to imports. If domestic production or imports do not accord with the forecasts, the rates of import duty and the subsidy to the domestic producer may have to be periodically revised and the pool prices changed from time to time. This may have an upsetting effect on the market and encourage fluctuations. If, however, it is decided to strike a balance between the customs receipts and the subsidies to be paid to domestic producers over a number of years rather than for each accounting period, the scheme has much to commend it—particularly in those cases where the domestic production constitutes a relatively small percentage of the total consumption of the commodity and the gap between the landed cost of the imported commodity and the fair selling price of the domestic product is large. In such cases protection to the domestic producer may be ensured by means of subsidies coupled with an import duty at a much lower over-all cost to the consumer than an import duty designed to bridge the gap between landed cost and the fair selling price of the domestic commodity. The cost to the consumers will depend upon the price differential between the imported and the domestic product and the relative proportions of the total requirements that may be eventually supplied by imports and domestic production. We would, therefore, commend this method to the Tariff Authority for consideration in cases similar to those we have described. A variant of this method is the mixing regulation. This was adopted in Europe in the inter-war years for protecting indigenous agricultural producers from the competition of low price foreign imports. It provided that in the case of wheat for example, the millers had to use a specified proportion of domestic wheat for every unit of flour milled by them. The price to the consumer would depend upon the relative proportions in which the two wheats would be mixed and the relative elasticities of demand and supply at home and abroad.

Both pooling and mixing regulations are, however, applicable only to commodities of a highly standardized nature. An example of pooling was provided in India's tariff history by the aluminium industry; Government fixed the price to the consumer at a figure half-way between the landed cost and the fair selling price. The domestic costs were nearly twice as much as the imported costs and it was considered unjust that the consumer should be called upon

to pay the full amount of the difference. The system was, however, discontinued in 1949.

Tariff Quotas 180. Under tariff quotas, imports up to a certain volume are admitted free of duty but any excess has to bear a defined rate of duty. It is difficult to decide on *a priori* grounds the particular stage of development of an industry at which such a scheme would be suitable. In certain cases where the initial capacity of the industry to supply the requirements is low, the tariff quota assures to the consumer the availability of sufficient supplies. It also puts a premium on efficiency and rapid progress, thereby guarding against the formation of local monopolies to exploit a situation where imports are rigidly restricted by quantitative restrictions.

181. We have considered most of the important methods of protection and State assistance to industries. There are a few others falling under the category of "administrative protection" which will be discussed in Section C of this Chapter. It is not possible to pass judgment on any one of these methods in the abstract. Every industry that claims protection has its own peculiar problems that demand solution on their merits. Most of these industries will be unable to supply an appreciable fraction of the internal requirements during an initial period. Some of them might, for technological reasons, be highly centralised and organised. Others may be scattered all over the country, with wide divergences in the conditions and costs of production. There will yet be other cases in which it will be relatively easy to estimate in advance both the local requirements and the probable output. Lastly, in a country with limited financial resources, the over-riding consideration will be the financial aspect. It is after considering all these factors that the Tariff Authority will have to decide on the methods of protection or assistance to be adopted in particular cases. In the above analysis we have attempted to indicate in a general way the advantages and draw-backs of the different methods available for use.

SECTION B

Quantum of Protection

182. In this Section, we propose to discuss some technical problems relating to the methods and procedure to be followed in tariff-making. The difference between the indigenous cost of production and the landed cost of the imported article generally measures the quantum of protection necessary for the indigenous industry. The idea

underlying the equation of domestic cost with the landed cost of imports is to place the indigenous manufacturer on a par with the importer. This is a sound principle and is the one also adopted in all countries where protective tariffs are in force. In determining the cost of production of the indigenous manufacture and the landed cost of imports various problems arise. These are briefly discussed in the following paragraphs.

Determination of cost

183. Regarding the cost of production of the domestic industry, the first point to decide is whether it should be the cost of the most efficient unit, the marginal unit or the "representative" unit in the industry. Tariff Boards have generally taken into account the "representative" unit for determining "cost". There are no objective criteria for the selection of the "representative firm" in an industry. The general practice is to select units of average size from different centres. One difficulty in the way of determining costs is the inadequacy of basic data relating to costs in most of the firms, with the result that in actual practice the manufacturing units selected for the determination of costs often happen to be those firms which maintain their cost accounts in proper form. The absence of a proper costing system in most of the industries has been often commented upon in many of the Tariff Board reports. In view of the importance of the maintenance of cost accounts in an industry which applies for or receives protection, it is necessary that the Tariff Board should prescribe suitable forms for this purpose. Broadly speaking, it may be said that the selection of a unit for costing is determined by the availability of cost data, the average size of the unit and its location.

The second problem in the determination of cost is the selection of representative items of production. For example, in an industry like electric motors, the production ranges from fractional horse-power motors to 30 horse-power ones. To cost each item in the unit would be a needlessly elaborate procedure. In such cases the most representative item or items should be selected in consultation with the industry and the cost determined.

184. The usual practice in India has been to collect cost data in three prescribed forms. The first form sets out the total cost of production, the second one gives the unit cost of production and the third the estimates of cost for the

next three years. Elements of cost are recorded under the following heads:

1. Materials
2. Power and Fuel
3. Labour
4. Repairs and Maintenance
5. Consumable Stores
6. Establishment
7. Depreciation
8. Other overheads like insurance, laboratory and research, rent, rates and taxes, directors' and auditors' fees, managing agents' charges, water lighting royalties, advertisement, law charges, medical expenses, travelling expenses, general charges.
9. Packing charges
10. Selling expenses.

Credit for materials required is also taken into consideration. After arriving at a costing in this form, the Board divides the cost sheet into two sections—

(i) works cost, and

(ii) overheads.

Under overheads are included interest on working capital, depreciation, return on capital and managing agents' commission. In fact, from a strictly accounting point of view, the Tariff Board's works cost includes some items which should strictly be shown as overheads. The items of cost which are included in the works cost as defined by the Tariff Board are taken from the books of the Company. If more than one unit of production is examined, the cost of the different units are compared, and after discussion with manufacturers a fair cost is arrived at.

It was pointed out to us by some witnesses that the Tariff Board did not always take into account the actual expenditure incurred and that its estimate of works cost was what it considered to be reasonable. Our enquiries disclose that the Tariff Board, at first arrives at a general estimate of fair cost after discussion with the manufacturers. Secondly, modifications are made in the estimate after the actual expenses incurred in different factories have been taken into account. It will be hardly correct to allow actual expenses in all cases if it is proved to the satisfaction of the Board that some of the expenses are

excessive and can be reduced immediately. We consider it desirable that the future Tariff Authority should lay down standardized principles on this subject so that no misunderstandings may arise.

Depreciation is generally allowed on the scales prescribed for income tax purposes. Here a point was raised before us as to whether depreciation should be calculated on the original value of the block or on the replacement cost. This is an issue on which different views have been expressed. The point has been discussed in the Tariff Board's reports on cotton yarn and cloth prices and on the fair retention prices of steel. In the latter report the Board came to the following conclusion:—"The proposal that depreciation should be based on replacement cost has been found unacceptable even by professional accountants who feel that there is an element of uncertainty and arbitrariness in such a procedure. Instead, they prefer to base their calculations on historical cost both for depreciation on fixed assets and for the valuation of stocks. They also suggest that additional sums provided for replacement should be regarded as reserves and treated as such in the accounts. Moreover, there are other practical difficulties such as the possibility that the cost of replacement might occasionally fall as also the fact that the replacement does not always or necessarily involve the installation of an identical machine". We understand that the question is under examination by the Government of India and stress the importance of an early decision. **Depreciation Allowance**

Working Capital is calculated on the basis of the turnover and interest on it is allowed after taking into consideration the money market conditions. Before the War the rate of interest allowed varied between 5 and 7½ per cent. Since 1945 the Tariff Board has been allowing 4 per cent. rate of interest on working capital.

No uniform practice in respect of managing agents' commission appears to have been followed; the practice has varied from industry to industry. In the Steel Industry the Tariff Board generally allowed Rs. 10 lakhs a year as managing agents' commission and office expenses. In the case of the Paper Industry, the commission allowed was 10 per cent. of the profits before depreciation. In the Sugar Industry 7½ per cent. on profits was allowed. In the Textile Industry an allowance of 10 per cent. on the profits was allowed. Since 1945 the Tariff Board has not been allowing managing agents' commission separately. Instead, it **Managing Agents' Commission**

allows a 10 per cent. return on block value which according to it should be sufficient both for a reasonable dividend and for adequate remuneration of the managing agents. We suggest that a standardized practice might be evolved by the future Tariff Authority in consultation with all interests in the industry concerned.

Return on Capital

The return allowed on capital has also varied from time to time and from industry to industry. In the Steel Industry 8 per cent. on the value of the block was given. In the case of the Paper Industry in 1938 the return allowed was 6 per cent. In the case of the Sugar Industry a return of 10 per cent. on block was allowed and in the Cotton Textile Industry 8 per cent. and 6 per cent. were allowed on block in 1932 and 1936 respectively. As mentioned earlier, the present Tariff Board allows a return of 10 per cent. on block which includes an allowance for managing agents' commission.

(a) In determining the return on capital it has been debated whether it should be on the capital employed or on the value of the original block. This is another question that would require careful consideration by the Tariff Board in the near future. Some recent legislation on this subject in this country and abroad might offer valuable guidance on this subject.* We suggest that the future Tariff Authority should initiate detailed studies on this subject as soon as it is in a position to do so. These studies will not only help to standardize the practice of the Tariff Authority but also throw light on this difficult problem which will more and more engage the attention of Government as its role in industrial management and administration increases.

(b) Another problem that arises is the valuation of the block itself. In some cases it is difficult to determine the value of the block, which is employed to a particular product when the plant and machinery employed form part of a larger unit of production. For example, in the case of alloy tool and special steel industry it was not possible separately to allocate working capital or fixed capital to the production of these articles as it formed part of the works at Jamshedpur which produced many other items. In this

*Cf: the provisions of the Sixth Schedule to the Electricity (Supply) Act, 1948—a piece of pioneer legislation on Electricity Supply Industry in this country which attempted to draw up a standard financial code for this Industry.

case the Tariff Board allowed 10 per cent. on the cost of production to cover interest on working capital, a fair return on capital and the managing agents' commission.

(c) A different problem arose in the case of the Aluminium Industry. Commenting on it the Board observed: "The usual practice followed by the Board is to allow 4 per cent. interest on working capital and 10 per cent. profit on the block. If the interest and profit had been calculated on this basis in the present case, they would have amounted roughly to Rs. 700/- per ton, which is quite out of proportion not only to the cost of production but also to the price of imported aluminium. The block in the case of the Company is Rs. 151/- lakhs and the working capital is estimated roughly at Rs. 25 lakhs equal to six months' turnover. The profit which we have allowed, *viz.,* 10 per cent. on cost, represents 2½ per cent on the block and working capital put together. This may appear to be somewhat low, but it has to be remembered that for a concern like this the block is very high and the usual return of 10 per cent. on block cannot, in the circumstances, be accepted particularly at a time when the industry is struggling to make both ends meet and is claiming a subsidy to be able to withstand competition from abroad. A particular reason why a full return on the entire block capital forms such a high proportion of the cost of production per unit lies in the present small output of the producing concerns relatively to their productive capacity. If and when the full rated production of the two concerns is attained, the disparity in results between the two bases of reckoning profits will not be so considerable."

The entire subject of return on capital in protected industries and valuation of the capital employed or the block on which such return is to be allowed should be subjected to detailed investigation by the Tariff Authority. We need not add that the return on capital should be fair.

Determination of c.i.f. Price

185. Regarding the determination of the c.i.f. value the present practice is to collect the information from importers and Collectors of Customs. In a few cases the Tariff Board has tried to collect information regarding prices from the principal competing countries through the Trade Commissioners. When the Tariff Board is reconstituted as recommended by us, that authority should organise a regular system of obtaining such information through the Trade Commissioners.

After all the relevant information has been collected the Board usually takes the current lowest price as the representative foreign price with which domestic costs should be equated. One difficulty that has been encountered in comparing landed costs with the cost of indigenous products is the problem of quality. In cases like paper and cotton textiles it has been said that quality for quality there is no real comparison between the indigenous product and the imported article. Besides, an element of prejudice has been often noticed in the minds of consumers against the indigenous products. We received a good deal of evidence on this latter point in the course of our investigation. While we recognize that the fact of prejudice can be exaggerated and it is necessary to guard against the use of this argument as a cloak for the maintenance of inefficiency and inferior standards, we consider that where such prejudice is established, the Tariff Authority should add an appropriate margin to the quantum of protection proposed for the industry. We understand that in practice the Tariff Board allows a margin for this purpose.

Period of Protection

186. It is difficult to generalize on this subject. The period of protection will depend upon the nature of the industry and the nature of competition from abroad that it has to face. If protection is for developmental purposes a longer period may be needed than for cases of protection to meet temporary disadvantages. In assessing the period of protection it is necessary to find out the handicaps from which the industry suffers and then to calculate the period of time needed to overcome those difficulties. It may happen that during the period of protection when the industry is trying to remove the handicaps, new technological developments in other countries may create fresh problems for it. It is, therefore, necessary to take into consideration prospects of technological advance in other countries and the time that will be needed by the domestic industry to modernize its plant and equipment.

In India the Steel Industry was given protection for a period of 23 years. The Paper Industry was granted protection for a period of 20 years. Protection to the Cotton Textile Industry was given for an aggregate period of 18 years, though protection granted to it was primarily of a safeguarding variety. The other industries to which protection was granted before the War enjoyed it for 18 to 20 years. In this connection the well-known observation of Professor F. W. Taussig will bear repetition: "The length

of time to be allowed for the experiment should not be too brief. Ten years are not enough. Twenty years may be reasonably extended. Thirty years are not necessarily unreasonable". A period as long as thirty years will, perhaps, be the exception rather than the rule. A material point to remember in fixing the period, especially in regard to basic and key industries requiring large capital outlay and high technical skill is brought out in the following quotation*:—

> "In highly developed countries a new firm or industry will benefit from those cost-reducing services which an established industrial system supplies in the form of better transport facilities, training of workers, more highly organised labour and capital markets, and so forth. It is different in less advanced areas, where new enterprises, while conferring advantages on those to follow, have to incur costs and risks for which they are not compensated by external economies already in existence. Infant industries can reap these benefits only after a considerable period of development, which, however, in an open world market is unlikely to materialise in the absence of State support. Moreover, where the established producers of the leading industrial countries have built up monopolistic positions and exercise price discrimination in international markets, newcomers are at an additional disadvantage Stronger and more permanent measures of State assistance than are visualized by the classical infant industry argument will then be required to provide an effective shelter against the monopolistic competitor."

A general principle is that industries should be assured of protection for a reasonably long period, so that capital may be attracted and a suitable programme of improvements may be drawn up and implemented. The best procedure would be for the Tariff Board to indicate the different stages in protection that it visualizes and to lay down conditions to be fulfilled at each stage: the industry should however be left in no doubt as to the period for which it can expect protection provided it discharges such obligations as may be laid on it and complies with other

*K. Mandelbaum: "The Industrialization of Backward Areas" Part A, page 4.

conditions stipulated by the Tariff Authority. Nothing in our view has detracted more from the effectiveness of tariffs in recent years than the practice of granting protection for short periods; this has discouraged efforts on the part of protected industries to modernize plant and equipment and rationalise production.

SECTION C

Administrative Protection

187. We shall consider in this Section measures or regulations which have the effect of protecting industry or of interfering with the free flow of goods and services. These restrictions or interferences usually arise from the necessities of customs administration or are the results of non-protective aspects of Government policy. They are not imposed with the object of protecting or assisting industry. Nevertheless, in view of their indirect effects, we have considered it desirable to refer to some of these measures. They may be broadly classified under the following heads:

(i) Customs regulations and formalities,

(ii) Railway and Shipping Rates and Shipping Regulations,

(iii) Stores Purchase Policy.

Customs Regulations & Formalities

188. The principal Act governing customs formalities and procedure is the Sea Customs Act (1878). It lays down detailed regulations regarding procedure for entry, landing and shipment, examination, payment of duty, bonding and ware-housing, transhipment, drawbacks, refund, etc.

On the import into or export from any customs port of any goods, whether liable to duty or not, the owner of the goods is required to state, in his bill of entry or the shipping bill, as the case may be, the real value, quantity and description of such goods. The real value should be either—

(a) the wholesale cash price *less* trade discount and *less* import duty for which goods of the like kind and quality are sold or capable of being sold at the place of import or export; or

(b) where such price is not ascertainable, the cost at which goods of the like kind and quality could be delivered at such place.

On the arrival of the imports, the owner of the goods is required to make an "entry" of them for home consumption or warehousing by delivering to the Collector of Customs a bill of entry containing the necessary particulars of the consignment which must agree with the particulars given in the ship's manifest. On the delivery of the bill the customs duty, if any, is assessed, and the owner of the goods may then clear the goods for home consumption or warehousing. Duty must always be paid before the goods are cleared, unless they are to be shipped in bond or warehoused, in which case a bond has to be executed. All goods imported or exported are liable to be examined by Customs Officers and if it is found that the real value of the goods is not correctly stated in the bill of entry or the shipping bill punitive action is taken under Section 167 of the Sea Customs Act.

189. The prohibitions and restrictions imposed on the import of several classes of goods are based on Section 19 of the Sea Customs Act, and are intended to serve different purposes. They may be classified under the following heads:—

(a) Restrictions imposed for purpose of *public security, e.g.*, the import or export of arms and ammunition, except in accordance with the provisions of the Indian Arms Act. Similarly, explosives and dangerous petroleum cannot be imported except in accordance with the provisions of the Indian Explosives Act and the Petroleum Act respectively;

(b) Restrictions imposed in the interests of *public health.* The import of all drugs is controlled by the provisions of the Indian Drugs Act (1945) and the Dangerous Drugs Rules. There are a few other minor prohibitions like the import of shaving brushes from Japan;

(c) Restriction imposed for the prevention of *counterfeiting*, etc. Imports of the following goods are prohibited:

(i) goods bearing a counterfeit trade mark within the meaning of the Indian Penal Code;

(ii) goods made or produced outside India bearing the name and trade mark of any person in India, unless the name or trade mark is accompanied by a counter-indication of the country of origin;

(iii) piecegoods which are ordinarily sold by length or by the piece which have not had conspicuous stamping on them in English numerals the length in standard yards.

190. Some further prohibitions and restrictions on imports are imposed under other Acts:

(a) *Protection of Plant Life*:

Under Section 5 of the Destructive Insects and Pests Act, 1914, the import of plants by sea is prohibited unless accompanied by an official certificate that they are free from injurious insects and diseases;

Coffee Plants, Coffee Seeds and Coffee Beans cannot be imported except for experimental purposes; and

Importation of sugar-cane by sea from the Fiji islands, New Guinea, Australia or the Philippine islands is prohibited absolutely;

Rubber plants, Lemon and Lime plants and unmanufactured tobacco cannot be imported unless they are accompanied by the special certificate specified in the Act;

(b) *Protection of Animal Life*:

The provisions of the Livestock Importation Act (1898) control the importation of horses, mules, cows, bulls, bullocks, buffaloes, etc., in order to protect the domestic animals from "infectious and contagious disorders".

It will be seen from the above paragraphs that the prohibitions and restrictions on the import of goods and chattel under the Sea Customs Act or other Acts are imposed for a variety of reasons, which have little to do with protection or assistance to industry or agriculture. Many countries have, however, used these provisions to aid or assist the domestic producer. We consider such use unjustifiable, not only from the point of view of international trade relations, but also because their use conceals the true character and burden of protection to the community. If a particular industry requires protection or assistance, this should be given in a direct and straightforward manner, so that the country may know what it pays for. It may be useful to point out that Articles 33, 35, 36, 37,

and 38 of the Charter for the International Trade Organization specifically discountenances the use of customs regulations and formalities to extend indirect protection to the domestic industry or agriculture, and in this case we see no disharmony between the national interests and the rules of international conduct.

Railway & Shipping Rate Policy & Shipping Regulations.

191. In many countries of Europe, particularly Germany, during inter-war years, Railway and shipping Rates Policy was extensively used to give protection and assistance to indigenous industry.

Shipping Regulations deal mostly with technical matters, which are of little interest so far as commercial policy is concerned. That portion of the Shipping Regulations, which deals with the carriage of goods on board the ship are really intended to prevent the unlawful import or export of merchandise, and may be regarded as an extension of customs formalities; they apply to all shipping, Indian and foreign alike. The provisions dealing with safety are mainly the result of international agreement and apply equally to most other countries. The provisions governing the health and employment of seamen will affect the competitive position of India only if the rates of pay of seamen and the conditions as to their accommodation, feeding and medical attendance increase the cost of shipping service as compared with that of other countries. We have no reason to think that the existing Indian Shipping Regulations have had this effect, and generally speaking we are of the view in the present state of Indian Shipping, it is hardly possible to use it as a method of indirect protection.

Stores Purchase Policy

192. The Stores Purchase Policy of Government in most countries of the world plays an important part in the development of domestic industries and the preference accorded to domestic goods is a measure of indirect protection granted to the domestic producer. The present policy of the Government of India on this subject is briefly summarised below:

> "Purchases are made by the Directorate General in accordance with the 'Rules for the supply of articles required for the Public Service'. As laid down in these rules care is taken to arrange purchases of articles indented upon the D. G. in such a way as to encourage the development of the industries of the country to the utmost possible extent consistent with economy and efficiency.

"Unless an indentor has been specially empowered to make direct purchase of stores in certain specific cases, all Central Government indentors, including the Defence Services and Railways have, as a rule, to place their indents on the D. G. I. & S. if the value of the demand exceeds Rs. 500. Supplies are also arranged against indents placed by the State Governments, quasi-public bodies etc. Purchase is arranged either:—

(i) by inviting quotations from firms in India which include indigenous manufacturers and agents/stockists of manufacturers in countries abroad;

(ii) by purchase from abroad through Purchasing Agencies of the Government of India, *viz.*, the D.G., I.S.D., London, and the India Supply Mission, Washington.

"All indents for the D.G., I.S.D., London (excepting those for arms and ammunition and other items of specialised stores which can be placed by the indentors direct on the D.G., I.S.D., London) are routed through the D.G. (I & S.) and in the case of indents to be forwarded to the I.S.M. Washington, irrespective of what the items are, all demands are routed through the D.G. (I. & S.). It devolves on the D. G. (I. & S.) to scrutinise these demands and to decide the advisability or otherwise of these demands being placed on the overseas organisations mentioned above or to arrange for procurement from local sources. This scrutiny of demands has a two-fold object *viz.*,

(i) to encourage indigenous production of stores imported in India, and

(ii) to encourage the importing firms to maintain good stocks of stores and spares and also to offer pre-sale technical advice and post sale service in the case of imported plant and machinery.

"*Method of Purchase*:—The commonest method of purchase is by advertising the demand in the Indian Trade Journal if it is considered to be for stores of such a nature as to bring further sufficient number of offers from its readers; otherwise the demand is also advertised in the leading newspapers of India. In response to these advertisements any firm can quote. In some instances, in order to draw the particular attention of firms registered with the D. G. (I. & S.), advance intimation of such advertised demands is sent to these firms.

"Very often it is necessary, due to urgency of the demand, to dispense with advertisement, and tenders are invited only from firms who are borne on the approved list of contractors maintained in the Directorate General of Industries and Supplies.

"In rare cases where proprietory stores are required, an invitation to tender is issued only to a single firm.

"Occasionally, as a result of uneconomic prices having been quoted, or due to lack of competition it becomes necessary to resort to negotiation to cover the demands.

"*Order of Preference in Purchase*:—Goods of Indian manufacture are accepted as far as possible, consistent with economy and efficiency and contracts are placed in the following order of preferences:—

(i) for articles produced or manufactured solely in India;

(ii) for articles partially manufactured in India from imported materials;

(iii) for articles of foreign manufacture held in stock; and

(iv) for articles manufactured abroad which have to be specifically imported.

"In case it becomes imperative to arrange imports from abroad, they are obtained from foreign countries in the following order of preference:—

(a) Sterling area;

(b) Other soft currency areas;

(c) Medium currency areas;

(d) Hard currency areas;

(e) Dollar areas.

In view of the acute dollar shortage, contracts on dollar and other hard currency areas are restricted and are placed only when essential.

"Although the general practice is not to give automatically a price preference to indigenous stores *vis-a-vis* the imported goods from soft currency areas, a limited degree of price preference depending upon the merits of each case is granted in respect of articles manufactured wholly or partly in the country in deserving cases in order to encourage development of the industries of the country."

193. The degree of price preference that may be allowed to Indian products has not been specially provided for in the Rules, because the Government of India retain in

their own hands, for the present, the power to grant such preference. Ordinarily a limited degree of price preference in favour of articles produced or manufactured in India is accorded for one or other of the following reasons:—

(a) when the industry is expected to fill a vital gap in the economic life of the country, and is likely to take a firm root in the soil in the near future;

(b) strategical necessity;

(c) to prevent a sudden dislocation of the labour method; and

(d) to regulate and control foreign competition specially during periods of temporary trade depression abroad.

We understood that quality for quality a margin of price preference was given in suitable cases. We have only two suggestions to make:

(i) the first condition about the nature of the industry justifying the price preference should be so liberalized as to render all industries run on sound business lines eligible for preference on condition that the products of the industry conform to such specifications as may be laid down by Government on the recommendation of the Indian Standards Institution;

(ii) a higher margin of preference should be given to the products of cottage and small-scale industries and conforming to such specifications as may be laid down for them.

Our object in making these suggestions is obvious and we would recommend them for the consideration by the Central and State Governments.

Publicity & Advertising.

194. In the years before Independence, "boycott" and "Swadeshi" ("Buy Indian" Campaign) played a large part in providing incidental protection to Indian industries. The former method of propaganda has now lost its use. "Swadeshi", however, retains its potency, but in the altered circumstances of the present this method of campaign must change its technique and tactics. It will be no longer easy to enlist the patriotic motive to extend the market for Indian products, unless the performance of the industries is also brought upto the highest possible standard.

In paragraph 185 we have referred to consumer prejudice against certain types of Indian products. We have already recommended that in suitable cases a margin should be allowed on this account in the case of protected commodities. Apart from this we do not see any easy solution of the problem. Faith and confidence in the quality of Indian products must be assiduously built up. The enforcement of standards laid down by the Indian Standdards Institution and constructive publicity and advertising backed by continuous production and market research will wear down this prejudice. To some aspects of this problem, connected with tariff protection, we have already referred in an earlier Chapter. It is not, therefore, necessary for us to pursue the matter further.

CHAPTER XIV

OBLIGATIONS OF PROTECTED INDUSTRIES

Case for the Obligations

195. In this Chapter, we examine the issues relating to the treatment and obligations of protected industries. Item 2(a) of our terms of reference specifically draws our attention to this subject.

196. In a previous Chapter, we discussed the question of the burden of protection on the consumers and the community as a whole. Whatever may be the theoretical or practical difficulties of measuring this burden statistically, the factors which determine it are broadly:—

(i) the effective rate of protective duty;

(ii) the period of protection; and

(iii) the rate of increase in competitive efficiency of the different units comprising the protected industry.

These three factors are closely inter-related but once the initial rate of protective duty has been fixed, there arises the obligation on the part of the industry to increase its competitive efficiency. A further reason for watchfulness is the limitation on consumer choice which a scheme of protection always imposes. As the community has to bear sacrifices, these must be reduced to the minimum absolutely called for. It is from these facts that the justification of the special interest of the community in the working of a protected industry is derived.

As the Australian Government which has freely relied on tariff protection to develop industries observes: *

"While the Tariff and other methods of protection are legitimate devices for building up industries appropriate to our economy, the grant of protection to producers is a privilege which carries with it the responsibility of maintaining the highest possible level of efficiency. . . . . Protection must not be protection of excessive costs, in-efficient methods and obsolete equipment, nor should it encourage the practice of relying on rings, cartels, tariffs and guaranteed home market rather than on efficient production".

*Extract from a White Paper on "Employment Policy" issued by the Australian Government in 1943.

197. That protected industries are under a special obligation to the community is now so generally recognised that it is hardly necessary to argue the point. It is an encouraging sign that organised industrial and commercial opinion is almost unanimous in recognising this. Thus the Indian Merchants' Chamber of Commerce, Bombay, observed in course of their evidence:

> "It would be legitimate to expect that industries receiving protection or assistance from Government must seek to achieve substantial progress by reducing costs resulting from the application of research in the technique of production, expansion in the size of operations and such other factors, which contribute to economies in the process of manufacture. Besides, the obligations mentioned above (my) Committee believe that the protected industries have also a general obligation to other ancillary industries and services like insurance, banking and shipping".

Again, the All India Manufacturers' Organisation, a body consisting mostly of representatives of medium and small scale industries, admitted with refreshing candour:

> "During the period while the Industry is taking root, the community will have to bear the burden of its protection either in the shape of direct cash bounties or subsidies or in the form of indirect price increase of the protected commodity or service. This makes an irresistible moral claim of the community against the industry protected or assisted that the aid given to it at the cost of the public, during its stage of struggle for survival, be returned in one form or another, when it attains to a status where such return is possible".

Such recognition on the part of the business community of the special obligations of protected industries was conditional on the pursuit of a vigorous developmental policy by the State.

198. The object of imposing obligations on protected industries would be only to ensure their efficiency. Some obligations may, however, reduce the incentive to efficiency, while others may directly or indirectly add to the cost of production and the fair selling price of a protected commodity. In the application of practical measures to enforce these obligations, a reconciliation of these conflicting considerations will have to be effected. The problem has arisen also in other countries where protection covers a

large area of the industrial field. Thus in course of a detailed review of the working of the protectionist policy in Australia* the authors observe as follows:

> "Although it is in the interests of local producers to keep their prices below those of imports, there is nothing to ensure that those prices will be at their lowest or that efficiency will reach the average standard in Australia. . . And the removal of the stimulus of competition. . . . presents a problem of almost baffling difficulty. We have to face the problem of finding a substitute for competition a stimulus to efficiency. . . . There is a conflict here between the incentive to efficiency and the interests of consumers. . . ."

No general principle or policy will solve the dilemma. It can be resolved only by empirical judgments based on a careful study of the facts and circumstances of each individual case. The points that will require examination will include the following among others:—

first, the nature of the demand for the commodity and the elements of cost—voluntary and non-voluntary,

secondly, the nature and extent of the market for it,

thirdly, the internal structure of the industry with particular reference to the forces of competition or combination operating in it,

fourthly, the nature of the particular obligation sought to be imposed,

fifthly, the type of administrative organization that is likely to be available to enforce a particular obligation.

It is only after a careful examination of these and connected matters that it would be possible for the appropriate authority to recommend the type of obligation that can be imposed on a protected industry and the manner in which it can be most effectively enforced.

199. Subject to these observations, we shall proceed to examine some specific obligations which have been suggested from time to time.

(i) Price Policy

As long as a protected industry consists of several competitive units, the price in the domestic market will be determined by the height of the protective duty; and in

*The Australian Tariff (An Economic Enquiry) by a Committee appointed by the Australian Government in 1927-29 (pp. 129-30).

the long run, competition should ensure that the price is determined by the level of costs in the most efficient unit in the industry. Under present conditions, however, when the flow of imports is primarily regulated by balance of payment considerations it is possible that if the protected article is also one in respect of which imports have been restricted, its domestic price may rise higher than the parity of landed cost *plus* the protective duty. If this situation persists for a long time, and the Government do not see any prospect of early relaxation in import control regulations, it may be necessary to take steps to regulate prices so that they may not rise above the aforesaid parity. The need for such regulation will be all the greater:—

(a) if the product of the protected industry is either an article of essential consumption or an essential raw material or ingredient in the manufacture of other products; and/or

(b) the industry is dominated by one or two large units which effectively shut out internal competition.

(ii) Production or Output policy

If a scheme of protection as applied to a particular industry is to succeed, it must ensure that the scale of production in that industry increases progressively. This is one of the most important obligations of a protected industry, and it should be the duty of the tariff-making authority to include in its initial recommendation a time-schedule setting out the programme of development that the industry must follow. In the course of its periodical reviews, which we recommend in a later Chapter, it should be the duty of the tariff-making authority to recommend appropriate measures for the enforcement of the obligation.

(iii) Quality of production

Another obligation which should be imposed on a protected industry concerns the quality of its products. If standard specifications for these products have been already laid down, it should be the duty of the industry to conform to them. If, however, no such specifications have been fixed, then it should be the duty of Government to ask the Indian Standards Institute to evolve suitable specifications, and of the tariff-making authority to stipulate that the industry should conform to these specifications within a prescribed period of time after they have been evolved and accepted by the industry as a whole.

(iv) Adoption of technological improvements

As the competitive efficiency of a protected industry will depend on its technique, it is of the utmost importance that an industry receiving protection employs up-to-date methods and practices in production and distribution. To protect inefficient methods without conditions would be merely to stabilise the burden on the consumer. In practice, the adoption of up-to-date technique may, however, be sometimes rendered difficult by the shortage of plant and equipment and the lack of financial resources on the part of the management. In such cases, the imposition of any obligation on a protected industry should be coupled with measures of positive assistance. It should also be the duty of the tariff-making authority to review the implementation of the measures of assistance recommended by it and also of the improvement scheme of the industry. If no substantial progress is made by the industry within a reasonable period of time in either of these directions, it should be the duty of the Tariff Authority to recommend the withdrawal of protection, unless for purely non-economic reasons, the existing methods of production, however inefficient they may be, required to be protected

(v) Research

Many witnesses have urged upon us that research should be made an obligation of protected industries. The importance of research in the technical development of new industries in this country can be hardly over-stressed, and the extent to which research results in the adoption of improved technique reduces the burden on the consumer. It should, however, be recalled that an industry must be properly organised before it can work out schemes of research and introduce them. As far as protected industries are concerned the suggestion we should like to make is that in suitable cases, having regard to the technical nature of the industry and its capacity to organize research, the tariff fixing authority should include in its recommendations a direction as to the promotion of research along well defined lines which it should indicate as precisely as possible in its report.

(vi) Training of apprentices and higher grades of Labour

The object of such training is to accelerate the spread of operative skill and technical education. This will enable a protected industry to expand its production and to reduce costs. From both these points of view, it is necessary that an obligation should be recognised to train apprentices and to provide opportunities for practical training to technical students and scholars. The expenditure to be incurred on this subject will be a legitimate charge on the protected

industry. The industry should, therefore, be called upon within a specified period of time to draw up schemes of apprenticeship and technical training at the time that protection is granted to it.

(vii) Anti-social activities by protected industries

It is an old saying that "tariff is the mother of trusts", and many witnesses who appeared before us argued that conditions should be imposed on protected industries to ensure that they do not resort to anti-social activities. The problem is not free from difficulty. All combinations are not necessarily anti-social; on the contrary in many lines of manufacture benefits of large-scale production will result mainly from concentration of production in a few large units and from large-scale management and concentrated development of the internal market. While it should undoubtedly be the object of State policy to eliminate anti-social activities, it is in the interest of the community that in a protected industry large-scale production needed to minimise costs is encouraged. No general obligation can, therefore be imposed on this subject. The problem must be necessarily left to an appropriate authority outside the tariff-making authority. It should be the duty of the latter authority to indicate in its periodical reviews the emergence of such activities or to draw Government's attention to particular features that may require remedial action.

(viii) Use of indigenous raw materials etc.

We also consider that it should be the duty of protected industries to utilise to the utmost extent possible indigenous raw materials wherever these are available provided they conform to such minimum standards as may be laid down by Government. We would also expect the protected industries either to establish subsidiary industries connected with them or to promote their development.

200. In the previous paragraphs, we have attempted to describe as briefly as possible the type of obligations that may have to be imposed on protected industries in order to safeguard the interests of consumers and to reduce the burden of protection on the community. The list is not exhaustive but includes all obligations that have a close bearing on the competitive efficiency of a protected industry. It does not, however, follow that all these obligations should be imposed on an industry whenever it is granted protection: whether any of these obligations should in practice be imposed or not will depend on a careful assessment of the facts and circumstances of each individual case.

Enforcement of these obligations

201. We have given much thought to the best way of enforcing these obligations. It is not our view that they should be embodied in the relevant Statutes dealing with protected or assisted industries as this would introduce a needless element of rigidity. The plan of implementation that we visualize is broadly as follows:—

First, these obligations should be treated as Directive Principles of Tariff Administration and should be embodied in the Statute dealing with the Establishment of a Tariff-making Authority. In Chapter XX we have suggested that the Statute constituting the future Tariff Authority should contain, among other matters, a few sections dealing with Directive Principles of Tariff Policy and Administration, on the analogy of the Directive Principles of State Policy in Part IV of the Constitution of India. These principles will not be "enforceable" in the juridical sense, but it should be the duty of the Tariff Authority to bear them in mind when they examine the claims for protection of particular industries. These Principles will include *inter alia* the obligations mentioned in the previous paragraphs.

Secondly, when the Tariff Authority examines the claim of a particular industry for protection it must collect facts and data necessary to enable it to come to a finding as to the desirability of imposing on it some or all of the obligations mentioned in the Directive Principles of the Statute mentioned above.

Thirdly, having made up its mind as to the obligations that should be imposed, the Tariff Authority should work out the conditions subject to which the obligations should be imposed. A programme for implementation should also be worked out.

Fourthly, the Tariff Authority should keep itself in touch with the protected industries to see how these obligations are being discharged (subject to the conditions laid down by them) and give the industries all possible assistance, in co-operation with the administrative organizations of Government, to enable them to discharge these obligations.

Lastly, the Tariff Authority should report to Government in its periodical reviews:

(i) the manner in which the obligations are being discharged by the protected industries;

(ii) the difficulties that hamper the discharge of these obligations;

(iii) the further measures necessary to secure enforcement of the obligations;

(iv) the changes in the terms of the obligations, if any, that may be called for.

Statutory Enforcement where necessary

202. It will be noticed that we have left the responsibility for such executive action as may be necessary for the enforcement of these obligations to the appropriate Ministry in the Government of India dealing with industries. In order to deal with marginal cases of wilful failure to comply with its directions, the Government may need statutory powers and such legislation as may be needed for this purpose will have to be promoted.

203. It will be clear from what we have said that we look upon the treatment and obligations of protected industries as an incident in the process of accelerated industrial development and not as punitive provisions for possible acts of omission or commission on the part of protected industries. It follows from this approach that the positive measures of assistance, other than tariffs, occupy a prominent place in our scheme of industrial protection. To the problems arising out of this we turn in the next section of the Report.

BOOK V

OTHER FACTORS IN INDUSTRIAL DEVELOPMENT

In this Book we propose to discuss the measures other than tariffs which are necessary for the development of industries. Sub-paragraph (a) of paragraph 2 of our terms of reference requires us to consider the future policy of Government in regard not only to protection but also to assistance of industries while sub-paragraph (c) of the same paragraph asks us to consider any other matter having a direct bearing on the effective implementation of a dynamic policy. The Indian Fiscal Commission of 1921-22 also recognised that "the mere imposition of protective duties, however scientifically contrived, will not by itself produce that full industrial development that we desire" and proceeded to recommend a number of "supplementary measures". We follow a similar line in our Report. In Chapter XV we propose to discuss the factors in the development of India's capital resources including the import of foreign capital. In Chapter XVI we wish to examine some problems of industrial management both in the private and the public sectors, which have a close bearing on industrial efficiency. In Chapter XVII we propose to examine the role of labour in industrial development and the factors which influence labour efficiency. In Chapter XVIII we propose to examine the relation of those tertiary industries and ancillary services whose development we consider essential to the rapid and orderly growth of industries.

CHAPTER XV

DEVELOPMENT OF CAPITAL RESOURCES

Role of Non-Fiscal measures in Industrial Development

204. In Chapter I, where we describe the origin of the present enquiry, we referred to the shift of thought on the subject of tariff policy since the beginning of the World War II. One logical consequence of this change was the increasing realization of the need to "place" the protection of industries, particularly tariff protection, in its proper setting within the framework of a purposive policy for accelerated industrial development. The position is now well recognized as will be seen from the following extracts from a post-war publication:—*

> "While the tariff is one and may be a necessary tool to bring industrialization about, it is not the only tool. It is one on which governments have tended to rely too much, ignoring or sacrificing other instruments of policy. But in fact, with the force of competition and the efficiency of production in the highly industrialized States and the cheapness of modern means of transport, any government anxious to initiate or accelerate industrialization at home must formulate and carry out a much broader and more constructive programme than is implied by the negative action of rendering foreign goods difficult to purchase through the imposition of high tariffs. As we have shown already, it must gradually construct an appropriate and efficient network of communications; it must in most cases promote the provision of power needed for mechanical production; it must afford adequate opportunities for general and for technical education; it must promote the spread of scientific knowledge. Without such fundamental measures of adaptation—and many more could be added to the list—the progress of young industry, however highly protected, will be but slow and halting. A tariff diminishes or abolishes the difference between the prices of imports and domestic goods by raising the former. The same result may be achieved by lowering the latter, that is, by lowering the costs of production. All the general measures mentioned above are designed for this purpose. But governments may in addition apply specific measures to

*Industrialization and Trade—League of Nations (1945) (p. 74).

> the benefit of particular industries and thus more definitely protective in character. They may stimulate industries by affording credit facilities, by the remission of taxes on new undertakings or by direct financial aid to such undertakings. The success of their policy will be measured by the rapidity with which such special assistance can be withdrawn. A permanent subsidy whether direct or indirect, is a proof of uneconomic use of resources which can be justified, if at all, only on non-economic grounds".

We propose to discuss in this Chapter and the others that follow the more important of these "general measures". We begin with the development of India's capital resources.

SECTION A

The Process of Capital Formation

205. The problem of industrial capital in India has a long history. The Indian Industrial Commission of 1916-18 found the "reluctance of the Indian investor. ....to risk his money in new undertakings......unless they were related to industry, which were already established and practised extensively" to be a serious obstacle in the way of industrial expansion. The Indian Fiscal Commission of 1921-22 appreciated the additional importance which this problem had acquired as a result of its recommendations but confined itself to the issues connected with the import of foreign capital. The difficulty about the availability of capital which has handicapped industrialization since its early days still continues. Indeed it has now become so acute that it constitutes, along with the balance of payments the crux of India's short-term economic problem. Many aspects of capital formation have been under the closest consideration of the Government. Our aim is to examine some broad issues of policy concerning the supply of capital and the channels through which this supply is canalized and distributed.

Stages in Capital formation

206. Capital formation is a long process, which is logically susceptible of division into the following stages:

(a) *First Stage.*—This stage is concerned with the creation of savings, *i.e.*, a surplus resulting from an excess of income over expenditure. The sources of these savings are individuals, business or trading houses and public authorities, including Government.

(b) *Second Stage.*—This stage is concerned with the mobilization and canalization of savings, *i.e.* at this stage, savings are converted into funds which are available for investment in agriculture, industry or trade, as the case may be.

(c) *Third Stage.*—At this stage, the funds which are already available for investment are actually spent on the acquisition of capital goods, and "capital formation" in the strict sense of the term occurs.

Three points may be stressed. First, all savings are not available for investment and do not, therefore, pass through the second and the third stages. Some of these are exported or hoarded or transferred to others for current consumption. It is only the balance that is available for investment. Secondly, of the savings available for investment, some are used by owners directly for the acquisition of capital goods and are not, therefore, available for investment by others. Under this head are included purchases of consumers' capital goods, ploughing back of profits into business undertakings and other forms of utilization of savings for investment directly by the savers. Thirdly, all the funds do not always result in capital formation. They may be used for many other purposes which may not always result in a net addition to investment. Further even where these funds are ultimately used for the acquisition of capital goods the time lag between the accumulation of these funds and "capital formation" strictly so-called may be considerable. The problems arising at each stage are set out below:—

(i) *First, the problem of savings*

Under this head will fall problems relating to—

(a) the will to save

(b) the capacity to save

in the different sectors of our economy, and affecting individuals, corporations and public authorities (including Government) alike;

(c) the leakages that take place at this stage from the stream of savings, *i.e.* the conditions and circumstances in which savings are not made available for conversion into investible funds (*e.g.* hoarding, capital exports, etc.);

(d) the additions to the stream of savings, *i.e.*, the factors which affect the inflow into it from various sources.

(ii) *Secondly, the problem of the conversion of savings into investible funds* under which will be included the problem relating to—

(a) the factors which influence the direct utilization of savings for investment purposes in the savers' own undertakings,

(b) the efficiency of the existing machinery for the collection and canalization of savings into funds available for investment. This involves a study of the working of the capital market in the widest sense of the term, institutions, the banking system, investment trust, building societies, mortgage houses and insurance companies.

(iii) *Thirdly, the problem of the utilization of the investible funds for the acquisition of capitl goods.*

Under this head will fall such subjects as—

(a) entrepreneurial enterprise, initiative and ability to rehabilitate and expand productive equipment;

(b) the availability of capital goods and their price;

(c) depreciation allowances;

(d) the level of earnings in the industries in which the capital goods would be installed;

(e) fluctuation in relative prices, which would affect investments in producers' stocks etc.

This list is by no means complete but illustrates the nature of the problems that arise at the different stages of capital formation.

Section B

Hindrances to Capital Formation

207. The difficulty of securing investible funds for financing the block of industrial undertakings has become acute since the beginning of 1947; indeed it is this difficulty which originally drew attention to the emergence of the wider problem of capital formation. At that time, attention was concentrated primarily on long-term industrial capital. The preamble to the Industrial Finance Corporation Act,

1948, reflects this phase. From the middle of 1948, however, difficulties of short-term finance began to be increasingly felt due, among other factors, to the expansion in export trade, insufficiency of transport resulting in the locking up of funds (which lasted till about the middle of 1949), increasing holding of stock in shortages and a rise in prices which had received a further spurt after the decontrol of foodgrains at the end of 1947. The position in this respect gradually improved and by the middle of 1949 the difficulties of large-scale industries in regard to short-term funds had somewhat eased. Small-scale industries, however, find it even now increasingly difficult to secure working capital. To this we have referred already in a previous chapter. The problem is one which we consider should be taken up immediately by the Government in consultation with the Reserve Bank of India. Our attention has been prominently drawn to this question in Calcutta and elsewhere and we attach much importance to early steps being taken to rehabilitate these industries.

Many witnesses have spoken to us about hindrances to capital formation and the steps that should be taken to remedy them. We propose to refer shortly to the more important points that were placed before us.

Fear of Nationalisation

208. Written and oral evidence placed before us referred to widespread misgivings about the policy of nationalisation laid down by the Government of India. It was contended that, owing to uncertainty in regard to future policy, capital could not be attracted to industries. In our discussions we made every effort to explain the policy of the Government of India as laid down in the Statement of Industrial Policy of April 1948 and also the provisions of the Constitution in this respect. Under the Industrial Policy Statement six industries have been proposed for nationalisation and, even in regard to these, when private enterprise is operating there is to be *no* nationalisation for a period of ten years. After this period, the question whether a particular industry should be nationalised will be taken up and considered on its merits and in the light of conditions then prevailing. Further, under article 31 of the Constitution, which defines the fundamental 'right to property' "no interest in or any company owning any commercial or industrial undertaking, shall be taken possession of or acquired for public purposes under any law authorising the taking of such possession or such acquisition, unless the law provides for compensation

for the property taken possession of or acquired and either fixes the amount of the compensation, or specifies the principles on which, and the manner in which, the compensation is to be determined and given". In the face of these there should not be any reasonable grounds for the misgivings to which expression was given before us. In fact, towards the end of our tours it was conceded by prominent industrialists that the fears referred to had largely receded. We hope all interests concerned will understand clearly the Government of India's policy and the provisions in the Constitution so that capital might not be deterred from coming freely into industrial and other undertakings.

Taxation levels

209. Reference was also made to the high level of taxation on the larger incomes as an important factor discouraging investment. Questions of taxation policy do not come within our scope. We would, however, add that the Hon'ble the Finance Minister has announced that the entire structure of taxation in the country will be subjected to examination.

Managing Agency System

210. Witnesses have drawn attention to malpractices on the part of some managing agents as a factor discouraging capital formation. This is not unfounded. The question of introducing improvements in the managing agency system is under the consideration of the Government of India who have published for criticism tentative proposals suggested to them. We hope that an early decision will be taken.

Stock Exchange Reform

211. Wide prevalance of gambling in stock exchanges was also alleged to be one of the causes hindering capital formation. The main function of the Stock Exchange is to provide liquidity for investments and thereby encourage the flow of savings into investible funds and thus assist in capital formation. This function can be efficiently performed only if the range of price fluctuations is warranted by economic factors; violent oscillations due to gambling deter genuine investors and thereby impede the flow of savings into investment. Further, wide fluctuations in the value of stocks and shares affect the credit base of individuals and corporations carrying on business. There have been large changes in stock exchange prices between 1939 and 1948, and there can be little doubt that the heavy fall of these prices since the end of 1946 has had a depressing effect on investments. The following table shows the extent of these changes, which, it is alleged, are due not to

normal market fluctuations but to extensive speculative operations:

TABLE 31

Changes in Market Value of ordinary shares between 1939 and 1948

No. of Companies	Market value of Ordy. Shares in Lakhs of Rupees				Appreciation as % of Aug. 1939 & Depreciation as % of July 1946 market value
	Aug. 1939	July 1946	Oct. 1948	Appreciation or depreciation	
554	192,00	543,51	..	351,51	183·1
747	..	692,69	335,55	—357,14	51·5

SOURCE —Bulletin of the Reserve Bank of India.

Witnesses have suggested that these operations deter *bona fide* investors. We have not been able to obtain reliable estimates of the extent to which such speculation prevails. The immediate practical problems, however, is to create conditions of working in these exchanges under which *bona-fide* investments will be encouraged. We are aware that this subject has been under the consideration of the Government of India for some time and hope that in consultation with all interests concerned plans for the proper working of stock exchanges will be matured at an early date.

Campaign for Savings

212. There is another question of importance to which we feel prominent attention should be drawn, namely, the shift that is now taking place in the distribution of the national income. There is no doubt that increased purchasing power is now passing to classes of the population who have not been in the habit of saving and investing, while owing to higher costs of living and other causes the margin of savings available with those classes who usually invest in industries is being steadily reduced. We have no studies to indicate the precise extent of the change that has taken place in distribution. It is possible that, as conditions vary widely in different parts of India, the classes to whom increased purchasing power has passed will not be the

same all over the country: they will differ from region to region and in the same region there will be changes from time to time in economic conditions. As, however, the tendency will be for large inequalities in income to disappear and for the change to which attention has been drawn to become a permanent feature of India's economy, we consider that there is need for a widely-extended organisation whose duties will be (i) to study continuously in every region the changes in the distribution of income that take place from time to time; and (ii) to inculcate the habit of saving among classes to whom increased incomes accrue. We have indicated in Book III, Chapter VII the nature of the organisation that might be set up to study this problem in rural areas and to inculcate the habit of saving among the rural population. This organisation should be supplemented by a similar one covering urban areas. The Central Government will have to guide the whole movement and regulate policies and also come to arrangements with labour organisations for spreading the movement among industrial labour. We also suggest that efforts should be made to mobilise rural savings for the execution of local schemes of improvement like irrigation, road-building, small-scale industries, etc. A useful method of financing large irrigation schemes would be the adoption of a system of "betterment" contribution. As the result of such schemes there will be increases in land values in the commanded areas and fixed proportions of these values—"unearned increments"—should be levied as contributions towards the capital cost of the projects—such levies being spread over a fairly long period, say, 10 to 15 years. We understand that this system is in vogue in some areas and would like to see that it is generally adopted.

Control of Capital Issues

213. We have received a useful memorandum on this subject from the Ministry of Finance. The original justification for the control was the necessity for preventing investible funds, scarce materials and services from being utilised for purposes which had no positive contribution to make to the prosecution of the war or to the production of consumer goods or other purposes beneficial to the public. The control was thus conceived as a war and anti-inflationary measure, in a regime of intense activity in the capital market, when profit-inflation was almost at its peak (May 1943). After the cessation of hostilities "the control was retained with the object of securing a balanced investment of the country's resources in industry, agriculture and

social services", but as the representatives of the Ministry of Finance admitted "the control operated only in a negative way, preventing direction of funds to certain undesirable purposes but it cannot ensure that they are diverted to more useful channels of investment". In other words, although the present control served some negative purposes, it was recognized that the objects for which it had been continued after the war were not being realized and could not be realized under its present working. In the first place, there is no clear-cut enunciation, *in a positive way,* of the principles that should be followed in consenting to or withholding sanction to capital issues, except in the case of food production and house-building where consent is given readily. Secondly, there is no machinery for following up the sanctions, and no obligation on the part of the applicants to keep the control authorities informed of actual investments. We consider, therefore, that capital control in its present form should be abolished. As, however, a Planning Commission has now been appointed, a fresh machinery may be devised for diverting capital into approved channels.

Section C

Capital Requirements

214. We shall now attempt to estimate roughly the amount of capital needed for the sort of development we have in mind. The present state of our statistics precludes anything but the broadest generalizations and where we mention figures we do so only to indicate the order of magnitudes involved. Subject to this understanding, we shall first examine our Demand for Capital and then to assess the extent to which we can meet it out of our own resources.

215. The demand for capital consists of two components, *i.e.*, the capital necessary for the maintenance of the existing capital of the community and the capital required for new investments. We are not aware of any authoritative estimate of the former; as regards new investments, it is obvious that no reliable estimates can be framed till actual plans of development have been made. Nevertheless, in some recent non-official investigations, an attempt to determine the order of capital expenditure that might be necessary in the next few years has been made.* In Appendix

Demand for Capital

VII to this Report we reproduce a summary of these estimates and their break-up into different sectors. Even if the most conservative of these estimates is taken as the basis, India's minimum requirement of capital expenditure would be of the order of about Rs. 250 crores a year on the basis of the 1947 price level. At the present level of prices this would rise to about Rs. 330 crores, of which the share of Agriculture and Industries would probably be Rs. 92 and Rs. 125 crores respectively. In our view, these schemes under estimate the share of Agriculture, as most of them were prepared before the shortages in food and industrial raw materials emerged fully after partition.

There are two ways in which one can look at this figure—its effect on the rate of increase of the national income, and its relation to the rate of past investments. It is difficult to dogmatize on the first point. The effect that a unit of capital investment produces on the national income depends on a variety of factors, and must necessarily vary from country to country. Indications afforded by such researches as have been made are that bearing the conditions of India in mind, capital investment of the order indicated in the preceding paragraph will lead to an appreciable increase in *per capita* income after off-setting the effects of increases in population**.

Whether this rate of capital investment would be a practical proposition will depend on the volume of internal savings and such loans as we can obtain from abroad. Before we proceed to consider this point, it may be instructive to compare this figure with estimates of rates of capital investment in India in certain pre-war years. On the basis of some unpublished figures, Dr. Colin Clark presents the following estimates of capital investments in the four quinquennial periods ending in 1938.

**Cf*: (1) A Plan of Economic Development for India (Popularly known as Bombay Plan).

(2) Gandhian Plan.

(3) People's Plan.

(4) Birla's Plan.

(5) Khareghat Plan for Agriculture.

**Recent researches on this subject have sought to establish a systematic correlation between capital investments and the level of real output per man-hour (which is a good index of *per capita* real income). We do not consider it necessary to enter into intricate calculations based on this correlation, the applicability of which to Indian conditions will in any case have to be established beyond reasonable doubt by prolonged inductive studies before it can be used as a basis for quantitative estimates.

TABLE 32

Average Annual Rate of Investment

(Rs. Crores.)

----	1919-23	1924-28	1929-33	1934-38
Railways	19	27	5	2
Irrigation	2	6	4	2
Other Public Works	6	6	4	4
Agricultural Improvement	55	47	39	58
Industry	21	11	10	12
Mining	5	..	..	..
Housing and other Building	(40)	(45)	52	61
	(150)	(140)	114	139

Adjusted for price changes, this rate of investment compares favourably with that suggested in the minimum plan and under present day conditions we shall consider ourselves fortunate if we achieve this figure. For, as we shall presently see, this rate of investment constituted about 7 per cent. of the national income throughout the period 1919 to 1938. This brings us to the question of the Supply of Capital.

Supply of Capital: Domestic Savings

216. Unlike the statistics relating to investments, estimates of domestic savings are mostly a matter of analytical deduction. In his article on "Indian Capital Requirements" to which we have already referred Dr. Colin Clark combines the investment figures set out in Table 32 with the balance of payment figures for the same period to arrive at an estimate of total savings (Table 33).

TABLE 33

Indian Investment and Savings

(Thousand million I.U. per annum.)

	1919-23	1924-28	1929-33	1934-38
Railways, Industry and Mining	0·48	0·44	0·19	0·20
Other Investment	1·40	1·59	1·70	2·40
Balance of Payments	—0·18	0·03	—0·08	—0·09
TOTAL SAVINGS	1·79	2·06	1·81	2·51
I.U. per head of occupied population	22·4	24·5	20·6	27·1
Percentage of *per capita* savings to *per capita* real income	9·7	10·6	9	11 7

I.U. means international units. They constitute an international scale for measurement of real income in which one unit is equivalent to the volume of goods and services, which one dollar would have purchased in the decade 1925-34 in the United States.

This rate of domestic savings enabled the prewar rate of capital investment to be maintained. No comparable figures of savings for post-war years are available but one unofficial estimate* based on admittedly inadequate data suggests the actual emergence of dissavings in the years 1946-47 and 1947-48 followed by a negligible amount of saving in 1948-49, when the rate of savings was said to be as low as 1·4 per cent. We cannot accept the correctness of these figures. But there can be no doubt about post-war trends in general—that the rate of capital formation has declined. There must be a great national effort to recover the ground lost in these years and attain levels of saving comparable to those of the pre-war years. We would again emphasise that the figures given by us are mere estimates indicating the size of the problem.

Foreign Examples: (a) U.S.S.R.

217. In the course of our enquiry we heard a good deal of the examples of the U.S.S.R. and Japan. It was argued that if both these countries could raise the capital necessary for their development without appreciable aid from outside, why should not India do likewise with its admittedly better resources and higher industrial equipment? On this subject we would merely quote the following extracts from two authoritative writers to show the strain to which the economy of these countries was subjected throughout the period of their intensive industrialization. Summarising Russian achievements in industrialization since 1926, Prof. W. A. Lewis writes as follows: †

> "Rapid industrialisation was the key note of Russian policy. The annual increase of manufacturing production in the United States was at its greatest at the beginning of the twentieth century, averaging 9 per cent. from 1900 to 1906; from 1906 to 1913 Japan, most vigorous industrialiser of all, had averaged 11 per cent. The Russian planners did not think in such terms. The first five year plan demanded an average annual increase of 27 per cent., and what is more, at the cost of considerable deterioration of quality, actually achieved 29 per cent. according to the official figures. Lower tasks were set for subsequent plans. Nevertheless, industrial production increased from 1929 to 1939 by 382 per cent. a cumulative rate of increase of 17 per cent. per annum according to the official figures. The official figures seem to exaggerate the increase not wilfully, but through the use of bad statistical techniques. The estimate of a careful

*The Eastern Economist : Annual Number 1948—Annual Number 1949.

†Economic Survey, by W. A. Lewis, p.p. 125-126.

enquirer is that gross industrial production increased from 1928 to 1937 at a cumulative rate of 13½ per cent. which is still considerably in excess of what other countries have achievd. .. .this great investment could not be achieved without a great increase of saving, as foreign loans were not forthcoming. And the required saving was all the larger as the first plans for industrialization were to concentrate on building capital equipment rather than on increasing consumers' goods. Taking 1929 as 100 the consumers' goods index stood at 362 in 1939 but the investment goods index stood at 770. Moreover, investment in this period was by no means confined to industry. Every branch of the economy needed capital and was to have it—agriculture, communications, education, public health, housing, were all to have their share. Out of 64·5 milliard roubles to be invested under the First Five Year Plan, only 16·4 were for large scale industry: the largest item was actually agriculture, with 23·3 milliard roubles ... .An estimate by Prokopovitch shows savings increasing from 22 per cent. of the national income in 1928/29 to 31 per cent. in 1929/30 according to the plan. Colin Clark rejects these figures on the ground that the prices of capital goods in Russia are artifically inflated, and offers an estimate of 14 per cent. for 1934. This estimate is almost certainly too low. The United States was saving rather more than 14 per cent. of its income at the end of the 19th century, when it was certainly not making anything like the effort of the USSR and many other countries have surpassed 14 per cent., at some stage of their growth, including Britain, Germany, Holland, Norway and Japan Russia must have been saving at least 20 per cent. of her national income during the 1930's and probably considerably more. Considering that countries with the Russian standard of living are normally considered exceedingly thrifty if they save as much as 10 per cent. of their incomes, the immense strain of the Russian effort can be understood. The strain revealed itself in two important ways, in inflation, and in conflict with the peasants".

(*b*) Japan

218. As regards Japan's aggregate capital investments, reliable statistics are difficult to obtain. One Investigator's estimate is as follows:

TABLE 37

Capital Investments in Industry and Commerce in Japan—1900—1936

Period	(In Millions of 1936 dollars) Total	Average per year	Investment as per cent of national income
1900-09	783	78	12
1910-19	1,658	166	17
1920-29 . . .	3,128	313	12
1930-36	2,476	354	10

These figures probably represent net and not gross investment and only investments in the Industrial and commercial sectors. As the author explains:*

"The estimate of capital investment so obtained undoubtedly errs on the conservative side. It excludes much which has ordinarily been included by economists treating the growth of capital in various countries. It excludes, for example, investments by individuals (by the individual farmer in livestock, farm machinery, farm buildings, etc., by professional people, such as doctors, in buildings and equipment, by individual investors in buildings etc.) and investment by local and national governments made from current revenues. It also excludes investments by the national Government for armaments, war, and all purposes other than economic undertakings. These various classes of investment have been excluded partly because it would be almost impossible to secure accurate estimates of the amount of such investment but also because we are chiefly concerned with the process of industrialization with the accumulation, that is, of capital used in production. We deliberately exclude, therefore, national loans incurred for armaments and war and similar purposes. Investments by individual farmers and professional people are not deliberately excluded, but the data are not available. These exclusions should be remembered in any comparisons of the data used here for Japan with estimates

*World Economic Development by Eugene Staley, an I.L.O. Publication (1945).

on the growth of capital in other countries by writers who do make provision for these other types of investments."

On the basis of some intricate calculations Dr. Collin Clark estimates the total internal savings of Japan out of which her industrial and commercial investments were financed to be as follows:

Year	Net Internal Savings (Thousand Million IU's)	Net Internal savings as percentage of National Income
1913-1919	10·9	55
1919-1924	11·6	41
1924-1930	18·4	38
1939	4·2	28

and concludes as follows:

"Japan in the early years of industrial development saved half of her entire income. This extraordinarily rapid development of production and savings may, perhaps, be attributed to the combined effects of:

(i) the special circumstances of the years 1913-19, in which money national income rose four-fold with a considerably better rate of increase of wage rates;

(ii) universal education since the 1890's onwards began to bear remarkable economic fruit from about 1910 onwards;

(iii) the great extent of governmental and military direction of industry and of investment, even in those earlier years;

(iv) the high proportion of income saved even by wage-earners, as shown by family budget studies".

We have quoted these figures to show the degree of austerity to which the Japanese people were subjected throughout this period. The future pattern of large-scale industries as visualised in Chapter IX probably follow the main lines of industrial advance in pre-war Japan. The similarity would, however, be probably confined only to the pattern; we shall find it difficult to emulate the pace of Japanese industrialization. As a well informed writer has observed: —*

"In a democratic country efforts to cut consumption or to keep it low, in favour of investment are sure

*Principles of Economic Planning by W. A. Lewis, p. 54.

to be resisted. A government may get away with planning for as much as 15-20 per cent. of the national income to be used for gross investment but if it tries to go further than this it will meet considerable resistance."

219. It is clear from the analysis in this section that the limits of industrialization—particularly in an under-developed economy like India's are almost rigidly set by the volume of internal savings that can be mobilised for industrial development unless foreign capital is available on a scale that will ease the strain on domestic resources. To this latter subject we turn in the following section.

SECTION D

Foreign Capital

Need for Foreign Capital

220. We confine ourselves in this section to the general case for the import of foreign capital and to the form in which and the conditions subject to which such capital may most suitably be obtained.

The analysis in paragraphs 215 and 216 discloses a big gap between India's domestic savings and its minimum capital requirements. It is clear that this gap can be closed only in one of the three ways—

(i) by an increase in the rate of savings;

(ii) by curtailment of the programme of investments; and

(iii) by a combination of both these methods.

The hindrances to any substantial increase in the rate of savings in the short-period have been already emphasized. Although we have reasons to think that these hindrances will be overcome gradually, we are doubtful whether during the next three or four years, India will be able to secure, by internal savings, the order of capital needed for its requirements. The need for foreign capital thus becomes apparent.

There is another reason why the country will need foreign capital in the immediate future. India's development plans will entail heavy expenditure on capital goods and equipment, much of which will have to be imported from abroad and paid for in foreign currency. With India's present balance of payments' position, the only

way of obtaining these imports would be to draw on accumulated savings like the sterling balances or to obtain capital from abroad. As the former is not convertible into dollars except up to limited amounts it is only through foreign loans, mostly from the hard currency areas, that India can solve its "transfer" difficulties.

There are besides other secondary advantages that India can derive from a judicious import of foreign capital. In so far as foreign capital is accompanied by technical "know-how", including results of industrial research facilities for the training of technicians, managers and administrators in modern methods, the financial arguments in favour of the import of foreign capital are further strengthened.

Fields for Foreign Investment

221. We shall now deal with the purposes for which and the form in which foreign capital might be obtained and the terms and conditions of its employment in the borrowing country.

As regards the fields in which foreign capital should be invited, we have received a good deal of evidence. The consensus of opinion is that, as a general rule, foreign capital should be confined to—

(a) projects in the public sector of the economy which depend on the import of capital goods, plant, machinery, equipment, stores, etc. from abroad, *e.g.* hydro-electric schemes; or on foreign technical assistance in the establishment or management of new lines of manufacture.

(b) undertakings in the private sector which involve new lines of production, and where indigenous capital and management are not likely to be forthcoming.

We are in general agreement with this view but would stipulate that in special cases, where the quantity of domestic production is small in relation to the total domestic demand and the indigenous industry is not likely to expand at a sufficiently fast rate there should be nothing to prevent Government from inviting foreign capital on such terms and conditions as they may lay down.

Forms of Foreign Borrowings

222. The form in which foreign capital is obtained is an important consideration. The choice of form will

depend on many factors, the more important of which are:—

(a) the nature of the project proposed to be financed;

(b) the nature of technical skill and managerial ability required to execute the project;

(c) the productivity of the project in terms of goods and service;

(d) the ability of the country to organize its administrative services to handle its development plans; and

(e) the preference of the foreign lender for a particular form of investment.

Broadly speaking, the indirect form of investment will be suitable in all those cases, where foreign capital is needed only to pay for foreign machinery and equipment and the simplest type of consultant service that is provided by the manufacturers of such equipment. In such cases foreign capital is necessary primarily because of exchange difficulties. Foreign Capital from official sources or quasi-official institutions like the International Bank for Reconstruction and Development or the Export-Import Bank in the U.S.A. is usually made available in this form. As is well known, India has recently obtained three such loans from the former body to finance its developmental projects in the public sector and foreign capital to finance the plans for the development of India's natural resources is likely to be available only in this form and from official or quasi-official international lending agencies. The direct or equity form of investment will be more appropriate in those cases where besides capital, technical know-how or technical knowledge or experience is also needed. In new lines of manufacture, involving difficult processes with which domestic manufacturers or technicians may not be familiar, the equity form of foreign investment ensures the adoption of efficient techniques. In some fields in the public sector also, Governments may consider it desirable to enlist the services of foreign entrepreneurs for limited periods. This form of foreign investment also enables facilities for training etc. to be arranged more quickly and effectively than could be done otherwise.

Another advantage is the element of flexibility that this form can introduce in the loan contracts with foreigners. Equity investment, in which the investors' return varies with the earnings of the enterprise or some other form of income in which the payment obligations to the investor similarly fluctuate with business results enables the service charges on foreign loans to be "transferred" to the lenders without the same amount of strain on the country's exchanges as a large burden of inflexible obligations might otherwise impose.

The last two factors *viz.,* (d) and (e) mentioned above, are equally important. The inability of some countries to organize their administrative and technical services may force them to rely on foreign participation and management and to prefer direct to indirect investment. Similarly, the choice of the foreign lender also influences the character of investment.* We have mentioned these details to show the complexity of the issues that should be examined before a decision to import foreign capital is taken in any particular case.

While it should be the duty of State policy to create and maintain conditions favourable to the inflow of all such foreign capital as desires to come to India, it must concentrate on the development of the domestic sources. Foreign capital can at best supplement the country's domestic resources.

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*Cf: The following extracts from "United State in World Economy —Economic Series No. 23" published by U.S. Dept. of Commerce:

"The most promising outlet for private American capital would seem to be direct investments. During the inter-war period investment of capital in the form of enterprises partly or wholly under American control yielded results that were in general more satisfactory from several points of view than investments in foreign dollar bonds.... Much may be said for making future direct investments abroad under conditions permitting appropriate financial and managerial participation by nationals of borrowing countries. Joint participation by Americans and foreign business interests has already yielded excellent results in some countries notably Canada and United Kingdom and similar methods might well be more extensively employed in other areas. This expedient serves to "nationalize" enterprises financed by alien capital, to reduce the friction commonly generated by absentee ownership and thus to deter movements towards expropriation and various forms of tax and other discrimination. It also provides opportunities for the development of technical and managerial skills among the nationals of the borrowing countries".

CHAPTER XVI

PROBLEMS OF INDUSTRIAL MANAGEMENT

SECTION A

Industrial Management in the Private Sector

Importance of Industrial Management

223. In this and the next Chapter, we propose to discuss some problems of industrial organisation and management, which have a close bearing on the competitive efficiency of Indian Industries and will increasingly affect their capacity for expansion. The importance of these problems was not fully realised in the years before World War II. The pattern of industrialisation at that time was comparatively simple. By and large, manufacturing capacity was concentrated on a few lines of production, in which India had a substantial comparative advantage, arising primarily from the possession of raw materials and cheap labour. Secondly, the forms of industrial organisation inherited from the British Industry and trade in this country were still dominated by their early traditions and pioneering quality. Comparative economic stability at home and abroad ensured the maintenance of fairly high standards of business management while concentration on the few lines of manufacture, in which British and Indian capital was invested prevented wide divergences in these standards from industry to industry. Thirdly, the absence of effective fiscal autonomy and the consequent preoccupation with the issue of tariff protection diverted attention from the problems of internal reorganisation to those of tariff protection. The war had an upsetting effect on this economy. The closed and rapidly expanding internal market which gradually emerged threw the problems of industrial organisation and management in the background; what really mattered in the war years and was understandably fostered by the Government of the day was the fullest possible utilization of the opportunities created by the war. The conditions of the market enabled industries to expand, regardless of their growing costs and problems of management necessarily required little attention. The cessation of hostilities brought these conditions to an end but the shortages resulting from physical production still prevented the emergence of a buyers' market.

This situation is now rapidly changing, but the balance of payments position in the next few years will probably give the country some breathing space before the full impact of a competitive world economy falls on its trade and industry. It is against this developing background that the problems of industrial management should be viewed.

Scope of Industrial Management

224. Industrial management comprehends a whole range of organizational and managerial problems connected with the conduct of an industrial undertaking from the production to the final sales stage. Their variety and complexity will be seen from the illustrative chart on page 218 which we have adapted from a standard work on this subject*.

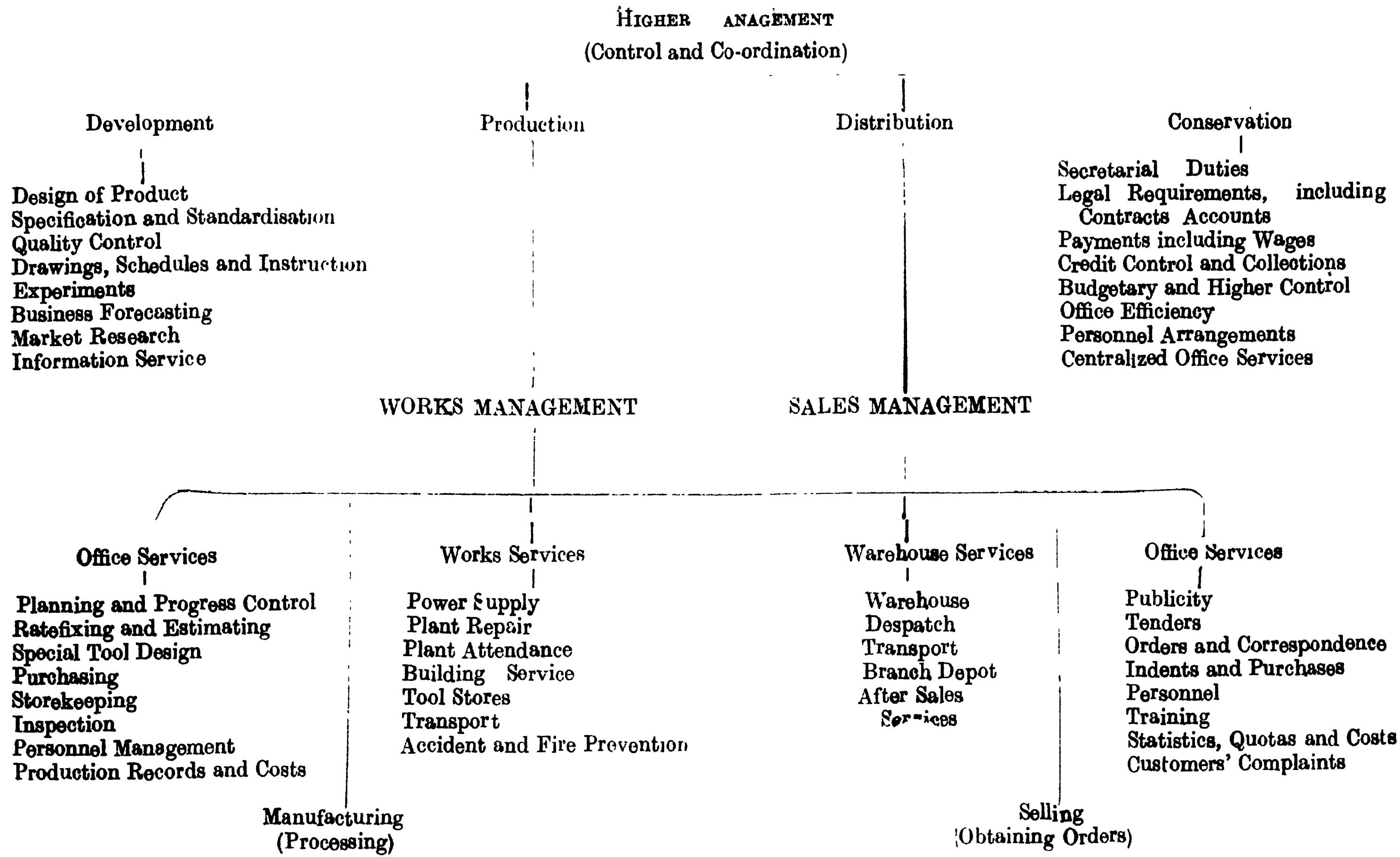
Managing Agency System

225. The traditional form of organization which controls higher policy in many established industries, *viz.*, the managing agency system is peculiar to India. It came into being for historical reasons which are well-known and has rendered signal service to Indian industries during the last seventy-five years. In the early days of industrialization, when neither enterprise nor capital was plentiful, the managing agents provided both, and India's well-established industries like cotton, jute, steel, etc. owe their present position to the pioneering zeal and fostering care of several well-known managing agency houses. During the inter-war years, however, several abuses crept into the system, which were aggravated by the circumstances in which business was carried on during World War II and the general decline in stardards that followed. In Chapter XV we have already referred to the effect of these abuses on the formation of capital. They also affect the quality of the direction and management of industries. We reiterate the recommendation we have already made in paragraph 210.

Industrial Consultant Service

226. We now pass on to other aspects of industrial management connected with the initiation of industrial plans and projects and their execution. As early as 1916-19 the Industrial Commission observed that "deficiencies in business experience and practical knowledge of the technical details is often a serious handicap in the way of its promoters than lack of finance". The position has improved—but not much—during the intervening 30 years. While (i) the larger industries established by the Government of India and (ii) the well-known large private industrial firms

*E. T. Elbourne: Fundamentals of Industrial Administration, 1945.


HIGHER ANAGEMENT
(Control and Co-ordination)
Development
Production
Distribution
Conservation
Design of Product
Specification and Standardisation
Quality Control
Drawings, Schedules and Instruction
Experiments
Business Forecasting
Market Research
Information Service
Secretarial Duties
Legal Requirements, including Contracts Accounts
Payments including Wages
Credit Control and Collections
Budgetary and Higher Control
Office Efficiency
Personnel Arrangements
Centralized Office Services
WORKS MANAGEMENT
SALES MANAGEMENT
Office Services
Planning and Progress Control
Ratefixing and Estimating
Special Tool Design
Purchasing
Storekeeping
Inspection
Personnel Management
Production Records and Costs
Works Services
Power Supply
Plant Repair
Plant Attendance
Building Service
Tool Stores
Transport
Accident and Fire Prevention
Warehouse Services
Warehouse
Despatch
Transport
Branch Depot
After Sales Services
Office Services
Publicity
Tenders
Orders and Correspondence
Indents and Purchases
Personnel
Training
Statistics, Quotas and Costs
Customers' Complaints
Manufacturing
(Processing)
Selling
(Obtaining Orders)

can and do command the services of competent experts, the majority of industrial undertakings are unable to do so. The difficulty is all the greater in the case of small industries. Industries will benefit if Government organise a bureau which will obtain such information as intending industrialists may need and bring them in touch with expert consultants. The good offices of our Trade Commissioners and Consulates should also be made available to them. During our tours, we have formed the opinion that in many industrial undertakings trained technicians are not employed with the result that efficiency of production suffers. We recommend that particular care should be taken by industries to appoint duly qualified technical men and to train suitable men for such positions. The types of expert service that we feel our industries should develop are those connected with plant capacity and production control, stores and organization control, raw material control, quality control and costing.

SECTION B

Industrial Management in the Public Sector

227. The growing importance of the public sector in India's economy merits a special reference to the problems of management in Government and quasi-Government industrial undertakings. The problems relating to the technique of management of such industrial undertakings fall under the following heads: — **The Problem**

(i) the problem of an appropriate form of organization:

(ii) the administrative relations between this organisation and the appropriate authority in Government that must ultimately control major policy. The nature of these relations will, in their turn. determine the limits of

(a) administrative decentralization, and

(b) financial delegation

that must be made to the field organisation;

(iii) the problem of personnel *i.e.*, the creation and maintenance of appropriate administrative service to work these State or quasi-State undertakings;

(iv) The commercial and financial principles that should be followed by these undertakings.

Types of Public Organisations

228. The types of field organisation so far evolved in this country are as follows:—

(a) the Board of Management consisting partly of official and partly of nominated non-officials and usually presided over by the Minister or the principal Administrative Officer concerned—functioning through a General Manager or a Works Manager in charge of the day-to-day administration.

(b) *the public company type,* where a number of officials and non-officials register themselves as a company with functions and powers as laid down in the memorandum of association—working through a General Manager in charge of the day-to-day administration.

(c) *the managing agency type*, where the day-to-day management is entrusted to a managing agency house, which may or may not have financial interest but which is remunerated on such terms as are laid down in its agreement with Government. Government may or may not have their representation on the managing agency but even if they have, they have no powers of control over the day-to-day administration.

(d) *the public corporation type*, represented by the Damodar Valley Corporation in which an *ad hoc* authority is created by Statute, which prescribes the limits of its authority *vis-a-vis* Government and defines its duties and functions.

We prefer the forms of organisation described in (a), (b) and (d) above. The main principles should be:—

(i) that these are worked under the Indian Company Law or a special parliamentary Act; (ii) that it is not essential that the entire capital in such undertakings should be provided by the State and there might be provision for participation by private capital; and (iii) that there should be a distinction between matters of policy and those of administration—the former being within the responsibility of the Government, the latter of the field organisation. Questions of policy include problems relating to investment and finance, output and purchasing power, improvements in technique and organisation, effects of large-scale changes in domestic or international demand etc. The administrative questions cover

those relating to matters of every day working in which immediate decisions on the spot are needed. The object of constituting these specialised organisations is to endow them with the initiative and vitality of the best among the private enterprises and to enable them within the limits laid down by statute or policy directions to take decisions from day-to-day with the same despatch and the same responsiveness to varying conditions of which private firms are capable.

229. Now that the Government of India are committed to policies of economic development and there is to be also a nationalised sector in industries, the creation of a specialised service visualised in the statement of Industrial Policy of 1948 has become urgent. In this the Government of India said:— Urgency of specialised Economic Service

> "Such a service is needed for providing suitable personnel for (i) the departments of the Central and State Governments dealing with economic matters, and (ii) the nationalised industries".

We recommend that early steps be taken to constitute such an Economic Service. Selection may have to be made in the first instance from the existing services on the basis of specialised academic training and administrative experience; also if possible from the ranks of business and trade, provided that suitable men with the requisite basic training and experience can be found. Once a cadre has been initially constituted it should be maintained by periodical recruitment from the open market in the same way as officers are now recruited into the general administrative service. The members of this specialized cadre will have to possess the initial qualifications needed *viz.*, high proficiency in Economics and allied subjects and to be given suitable opportunities to acquire experience in different fields of industry, commerce and finance and for this purpose may have to rotate between Government offices and private firms, provided suitable facilities for the type of training required can be arranged under appropriate terms and conditions. We have indicated the general lines of our thought on this subject; the details will have to be carefully worked out. We would only add that the conditions of this service should be such as to attract the right type of recruit. The need for such a specialised service has been brought to our notice by many witnesses. The following extract from the written evidence of the Federation of

Indian Chambers of Commerce and Industry represents the views of many industrial and commercial bodies:—

> "The existing administrative organization will be inadequate to deal with the obligations arising from Government's acceptance of a comprehensive policy as regards fiscal and non-fiscal assistance to the industries. What is required is development of a new kind of public administration to deal with the State's new and expanding functions in the industrial field. This will mean toning up the present administration and adopting an essentially different technique of administrative team work. If the public service is to secure the best men it will be desirable to encourage freedom of movement between Government departments and privately administered concerns. In the matter of new recruitment, the greatest attention will have to be paid to working out the best methods of attracting the right types and of assuring that technical as well as administrative ability shall be given the fullest recognition and scope for efficient service".

Commercial and Financial Policies of Public Undertakings

230. It now remains for us to indicate the commercial and financial policy that the Government or semi-Government industrial undertakings should follow. Their structure as well as conditions of work should be such as to ensure—

(a) that the community knows the costs of what they are doing;
(b) that the community is satisfied that this cost is equitably distributed; and
(c) that the decisions of the public authority are taken democratically.

Apart from the usual accounting safeguards and the obligation to submit periodical accounts in an approved or prescribed form, we would suggest the following measures:

(a) a periodical review of the working of these undertakings by a competent authority with a view to the assessment of their efficiency;
(b) the constitution of a Consumers' Council to be attached to each Government or semi-Government undertaking, with well-defined powers and duties which should include the study of cost statistics, price structure and price policy, enquiry into complaints from consumers about unfair practices or discriminatory treatment according to a definite procedure laid down by Government;

(c) the constitution of a Tribunal on services and charges on the lines of the Railway Rates Tribunal with functions more or less similar to those of the latter;

(d) each undertaking should submit "a business-type" budget. The accounts should be maintained on a commercial basis and audited by a competent staff. These audit notes, with reviews thereof, should be placed before the Minister concerned so that Parliament may be kept informed of the manner in which these undertakings are working and their cost to the community.

231. The views we have indicated above are purely tentative in character. The problems relating to the management of Government and quasi-Government concerns have been studied intensively in recent years in the U.K. and in the Dominions of Australia, Canada and the U.S.A. We suggest that a study of the experience in these countries should be made by a special officer and that suitable organisations should be evolved to ensure that the management of these concerns is conducted on sound business lines at a minimum cost to the community and that their operations are subjected to periodical scrutiny.

SECTION C

Industrial Research

232. We now come to another aspect of industrial management that affects both the private and the public sector of the country's economy, *viz.* research as a factor in industrial efficiency. In paragraph 226 we referred to the Development Services in an industrial undertaking. This constitutes an increasingly important responsibility of the higher management in all modern industrial undertakings and we were happy to find a growing recognition of this responsibility among the more enlightened section of business leaders in this country. It is an instrument of developmental policy that Research is important.

233. Apart from one or two exceptions, industrial research has hitherto been unknown in India. Most industrial undertakings in India are of the small or medium type and they cannot afford individually to set up research centres of the proper type. It is only by co-operative effort that the benefit of applied science and technology can be brought to the doors of individual undertakings. **Present Position.**

Organised industrial research in this country is of comparatively recent growth. It owes its origin primarily to the work of the Technological research institutes attached to the various commodity committees, like the Indian Central Cotton Committee, Indian Central Jute Committee, the Indian Central Lac Cess Committee, etc. which were set up in the inter-war years. As these Committees were primarily concerned with agricultural aspects, the contribution of these institutes to the development of manufacturing processes was comparatively small. Nevertheless they served to focus attention on the importance of research in the development of agriculture and industry. Apart from the laboratories attached to these commodity committees, certain independent Research Institutions have been established in the different parts of the country. They have primarily concerned themselves with basic scientific and technological problems arising out of the application of science to industry rather than with the specific short and long-term problems of industry. Their activities have not therefore appreciably benefited the industries of the country. This has been due largely to the lack of continuous contact between these institutions and the major industries.

Lines of Industrial Research

234. The possibilities of industrial research are limitless; and it will be prudent in the next few years to accord priority of consideration to the problems connected with the following aspects of industrial management:—

(i) *Processes of Production.*—Research under this head will cover—

(a) the raw materials used in manufacture, *e.g.* the treatment of raw materials to improve their quality, to condition them for particular processes and to vary their characteristics; also investigations into the suitability of substitutes;

(b) the technical processes employed in an industry;

(c) the improved use and lay out of existing plant and equipment.

(ii) *Working conditions in factories and their effect on the health and efficiency of personnel.*—Research under this head will include investigations into—

(a) industrial surroundings, *e.g.* atmospheric conditions, lighting, noise, dust, smoke etc.

(b) Methods of work—

(i) Physiological aspects

(ii) psychological aspects

(c) physical and mental disabilities caused by working conditions.

(iii) *Market Research.*—Problems under this head will include—

(a) Methods of distribution

(b) Methods of publicity

(c) Consumers' preference

(d) Measurement of market potentials or buying power. The long term importance of this type is seldom recognized but with the rapid emergence of competitive conditions both at home and abroad and the changes in the pattern of our export trade that appear to us to be inevitable in the long run, this item of research is perhaps more urgent and will probably become of more commercial importance than people generally realize.

(iv) *Management Research.*—Investigations under this head will be concerned in the next few years with personnel administration and employer-labour relationships in their purely administrative aspect.

The principal objects of such research should be (a) to improve the quality or usability of raw materials. (b) to improve the quality of finished products, (c) to improve the quantity of finished products per unit of raw material and (d) to increase the efficiency of industrial processes as measured by physical output per man hour.

Co-operation between Government and Industries

235. There are two aspects of research on which we received some evidence and on which we should like to say a few words. *First,* it is clear that the establishment of Industrial Research institutes should be the joint responsibility of the Government and of the industries. An outstanding example of co-operation in industrial research is the Research Institute organized by the Ahmedabad Textile Industry Research Association (ATIRA). We were happy to find that the assistance given by Government towards the establishment of this Institute was appreciated by the Industry and we would commend similar assistance to the other organized industries of the country on a co-operative basis. Sec. 10 (2)—Clauses XII, XIII and XIV of the Indian Income-tax Act lays down the terms and conditions on which income-tax relief

for expenditure incurred on research is ordinarily available, and although some witnesses commented on the onerousness of the provisions of clause XIV of this section (which relates expenditure of a capital nature) we have no doubt that in suitable cases the Government of India would be prepared to interpret these provisions in a liberal spirit.

Secondly, it is essential that the work of the Research institutes organised by private industry should be integrated with the activities of Research Institutes established or administered by Government or quasi-Government authorities. In the first place, the respective spheres of research organised by the Universities; and of the national laboratories established under the Council of Scientific and Industrial Research or the Technological Research laboratories attached to the commodity committees; and of specialized Institutes like the Indian Institute of Science, Bangalore, should be clearly defined and their interrelations worked out. The further question of linking up organized industries with institutions engaged in industrial research in a much more continuous and effective manner than the present arrangements permit must also be tackled urgently. In the absence of any real research consciousness in industry till lately and the paucity of scientific and technical personnel of the appropriate calibre in the management of undertakings, it was futile to expect that the industry would be able to make an intelligent reference of precise problems to a body of scientists functioning in a distant Government-sponsored or Government aided Research Institute. The latter in their turn were remote from the problems of the industry and possessed little awareness of the scientific or technological difficulties of industries. It is to the bridging of this gap that all parties concerned should direct their efforts. A competent observer familiar with the problems of industrial research comments as follows on our present position:—

> "We have seen why in India the laboratories attached to commodity committees and those of independent research institutes and universities have failed to play an effective role in industrial research. Conditions here are to some extent similar to what they used to be in England in industries such as textiles some 20 or 30 years ago. There are a number of manufacturing firms of small or medium size and practically none with a large enough scale of operations to afford or justify the

establishment of private industrial research laboratories on an adequate basis. Perhaps the only exceptions to this are the iron and steel, and the cement industries. But conditions in these are quite peculiar and are not representative of any of the other major industries. The only solution is to have co-operative research associations attached to major industries. This was precisely how the problem was tackled in England and on the whole it has been very successful. In the United States of America, the conditions are totally different. In that country most industrial research has been done either in the private laboratories of huge cooperations or in industrial fellow-ship laboratories such as the Mellon Institute. It is fairly obvious that for some time to come, till there is much greater research consciousness and the size of units increases, we shall have to develop our industrial research somewhat on the lines of the British model.

"It would be quite legitimate for Government to run the National Physical Laboratory and the National Chemical Laboratory as Government Departments. It is because these laboratories are expected to fulfil the roles of fundamental national importance such as of standardisation and basic developments in physics and chemistry. However, it would be tragic if any of the other laboratories are run as Government departments. This point needs great emphasis because unless industry is actively associated in the financing and management of its own particular research association, these laboratories would suffer from the same isolation that has paralysed attempts at industrial research in the past. Scientists working in an industrial field must have immediate and welcome access to industrial plants, and they should also be confident that what they are doing is not merely of academic interest, but will be given a trial under actual working conditions in the industry itself. Fundamental research has its own reward. The main reward that applied research can hold out to any worker is the possibility of practical utilisation. If this dynamic link is missing, we shall have created nothing that is going to contribute to the industrial progress of this country. All these other laboratories therefore should be removed from the control of C.S.I.R. and put in charge of autonomous research associations with major responsibility placed squarely on industry."*

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*Extracts from a note submitted to the Commission by the Director ATIRA, Ahmedabad.

SECTION D

Standardization and quality control

236. There is one related subject to which we shall make a passing reference in this context, *viz.* the problem of standardization. Upto now not much attention has been paid by Indian industries to produce goods of standardized quality and specifications. For a variety of reasons, which are now widely understood and appreciated, the need for standardization and control of the quality of Indian manufactures has now become urgent. The Export Promotion Committee has recently drawn attention to this urgency in the case of exports; the urgency is no less in the domestic sphere. First, without standardization, it would be extremely difficult to bring about a closer integration of the different branches of the industry. This is of particular importance in the development of small-scale and cottage industries, which may act as feeders to large-scale industries. Secondly, standardization and quality control are important from the point of view of reducing wastage in raw material consumption and facilitating the fuller utilization of man-power. Thirdly, standardization and quality control are important if manufacturers and traders have to retain their hold on the domestic as well as the foreign market. Lastly, we attach special importance to standardization and quality control in the case of the protected industries.

Activities of Indian Standards Institute

237. We had the benefit of hearing the representatives of the Indian Standards Institute who appeared before us. We understand that this Institute has already issued ten Indian Standards and circulated other draft standards among interested parties throughout the country for their comments or suggestions.

The main principles underlying the preparations of the draft standards appear to be the same as in the preparation of the British Standard specifications, *viz.*:

(i) that the specifications should be in accordance with the needs of the industry and fulfil a generally recognized want;

(ii) that the community interest of producer and consumer should be maintained throughout the work;

(iii) Standardization should be arrived at by general consent;

(iv) periodical review and revision should be undertaken to prevent crystallization of standards and to keep them abreast of technical progress.

The principles on which the Indian Standards Institute frames its specifications conform to what is best in current practice—providing a generally suitable standard of performance, quality or dimension and an equitable basis for tendering. While we are in general agreement with the principles enumerated above, we suggest that at the present time when the authority of industrial associations over their constituent members still remains to be established and their ability to enforce minimum codes of business ethics is limited, there would seem to be a *prima facie* case for making the observance of the approved standards obligatory on the industries concerned—at any rate on those industries which have a large export market or which provide the raw materials of exportable commodities. The difficulties of compulsory enforcement of standards are easily understood and we would suggest that the problem should be carefully examined by Government at least in so far as the principal items in India's export list and the principal articles of consumption are concerned.

We understand that certain tentative proposals relating to the use of I.S.I. certification marks on a *voluntary* basis have been already framed by the Indian Standards Institute and are now awaiting the consideration of Government. The draft Bill has been framed on the lines of the BSI certification making scheme, and its provisions will probably be administered in the same way as the Agriculture Products (Grading and Marking) Act, 1947. In the present organization of industries and the state of the internal market, the use of the measure in the domestic market will be necessarily limited, but it may be used with advantage for the standardization of commodities which enter into the export trade. In any case, pending stricter regulation and control over quality, the scheme may be given a trial.

CHAPTER XVII

LABOUR EFFICIENCY IN RELATION TO INDUSTRIAL DEVELOPMENT

SECTION A

Problems of Labour Efficiency

238. We now propose to consider some problems relating to labour-efficiency which have a direct bearing on the tempo of industrialization, and affect the competitive position of Indian Industry. We shall confine ourselves in this Chapter only to these issues. There are other aspects of labour, perhaps more important, which must obviously be taken into full account in any appraisal of the place of labour in Industrial Society. We are *not* concerned with any such comprehensive enquiry. Our interest is only to elucidate some of the factors that affect labour efficiency both in the short and the long period and through it the course of industrialization.

Concept of Labour Efficiency

239. The concept of labour efficiency is not free from obscurity, and it is not easy to find a formula that will measure it in space or time. It is possible on any particular date to measure the efficiency of labour in a particular industrial undertaking by the amount of physical output, and the criterion of output per man hour (O.M.H.) or output per man-shift (O.M.S.) has been often used for this purpose. But it is difficult to use this formula to measure the *relative* efficiency of labour in two undertakings in different periods of time. To use it for international comparisons is, of course, still more difficult. The pitfalls in the application of this formula arise from the fact that out-put per man-hour or man-shift is not always a function of one variable, *viz.*, labour. The other factors that affect labour-efficiency are many:—

(i) the physical conditions of work in the factory or the mine;

(ii) the nature of the lay-out of the plant;

(iii) the nature of the technical processes;

(iv) the nature of the assistance which the worker obtains from the use of improved tools and equipment;

(v) the quality of the raw materials which the labour force has to use;

(vi) the systems of management and remuneration which induce the labour force to work better or worse.

The relative importance of these factors will vary from undertaking to undertaking even within the same country, while the range of these variations in international comparisons will be enormous. It is, therefore, essential in any comparisons of the *relative* efficiency of labour either in space or time that these qualifications should be carefully borne in mind and due allowance should be made for them.

Decline in Labour Efficiency

240. Many investigations into labour-efficiency have been carried out in the U.S.A., the U.K. and other countries, and international comparisons of labour efficiency have also been undertaken in some cases.* The absence of relevant statistics makes similar studies almost impossible in this country. Till they are available, material for study can be obtained only by intensive "sample" enquiries in industries for which production and employment statistics exist over a long period and for which information is also available about their progressive capitalization during the period under investigation. In almost all the places that we visited, industrial and commercail interests complained of deterioration in labour-efficiency that had taken place during the last few years, and argued that the margin for increase in efficiency even under existing conditions, of plant, equipment and management, was considerable. Representatives of labour rarely challenged the fact of a fall in efficiency but were generally inclined to attribute it to causes outside the control of labour. We reproduce typical figures that were brought to our notice. The Chairman of the Tata Iron and Steel Company in his speech at the Annual General Meeting of the Company held in August 1949 referred to the decline in the efficiency of labour in the following terms:—

"Whereas the average labour cost per ton of finished steel has gone up from Rs. 31·54 in 1939-40 to Rs. 92·80 in 1948-49, the average output of finished steel per employee has declined from 24·36 tons

*For a study of the technique of analysis on this difficult object, the interested reader may refer to the well-known investigations by Ezekiel Weintraub and Douglas as regards the real output per man-hour in American Manufacturing Industry during the last fifty years; to similar studies by Rawe, Goodes, Cloin Clark and others in the U.K. and to the more recent international caparisons carried out by L. Rostas.

> in 1939-40 to 16·30 tons in 1948-49. While the increase in labour cost can be explained to a great extent by the increase in the cost of living it is the decline in the output per head by nearly one-third which is an index of the prevailing malaise and which causes serious anxiety. The number of men employed in (your) company is not only several times the number required for the same output in advanced countries like America and Europe, but is far in excess of the number of men required even under Indian conditions. This is particularly so in the maintenance departments where, ironically enough, the men who have recently had the largest increase in emoluments have given the greatest trouble. The output per man in our structural shops is half a ton per month, whereas the average output per man in similar shops in the United States is 5 tons per month . . . . We have been advised by experts that in our maintenance departments the majority of the men are working at one third to half of their capacity even under normal Indian conditions".

Similarly, in course of their evidence before us, the representatives of the Indian Mining Association gave figures to show that the output of the coal mines had fallen in relation to the number of men engaged in coal mining and later on another association followed this up with some figures showing output per man-shift in the different countries.

South Africa—1·907 tons.
United Kingdom—1·100 tons.
Poland—1·524 tons.
France—·715 tons.
India—·354 tons.

For reasons which we have already mentioned we are unable to assess the value of these figures as a measure of the relative efficiency of labour in the coal industry, although their significance in the relative efficiency of the coal industry of India as a whole *vis-a-vis* coal industries in other parts of the world is apparent. While we cannot commit ourselves to precise statistical comparisons, the indications are clear that in recent years there has been an appreciable fall in labour efficiency and this represents a problem that must be energetically tackled in a co-operative spirit by Government, Industry and Labour.

Causes of Decline in Labour Efficiency

241. The characteristics of Indian Labour—its migratory nature, the high degree of preference it attaches to leisure, its resistance to high-pressure effort and rigid discipline—are all well known and have their origin in the agricultural

character of the labour force, climatic conditions and other causes. For these permanent factors, there are only long term solutions—improvement in health and hygienic conditions and the growth of the co-operative spirit. We are here concerned with the causes of the recent deterioration in labour-efficiency. The evidence on this subject was indefinite as was to be expected and the main causes mentioned were:—

(a) the rigidity of the existing wage-contracts;

(b) the growing strength of the labour movement, which restricted the employers' right to control his labour;

(c) increasing propensity for leisure resulting from higher wages;

(d) growing social consciousness among the labour force which sometimes resulted in dissatisfaction with the traditional methods of management;

(e) a silent massing of opinion in labour circles in favour of "sharing work" rather than "reduce" the volume of employment by intensive effort.

If the foregoing analysis is correct the solution of the problem of labour efficiency would rest in the short-period on an effective machinery for collective bargaining and arbitration and sound employer-labour relations; and in the long run on training and education and on far-seeing management of business undertakings.

Section B

Industrial Relations as a Factor in Labour Efficiency

242. The establishment of sound Employer-Labour relations calls for intense positive effort at many different fronts, and is fundamentally different from the prevention or settlement of industrial disputes. In the past, labour policy has been primarily concerned with the latter, and machinery of varying degrees of comprehensiveness has been evolved from time to time for conciliation, adjudication and arbitration. The object of these schemes was primarily to settle conflicts as they arose and only secondarily to remove the causes that gave rise to them. We feel that more and more in future the machinery for the settlement of trade disputes will have to be geared to a more positive plan for the promotion of a co-operative

spirit in business administration, in which the respective functions of labour and management will be carefully laid down and in which both parties will function in a spirit of service to the community. The beginnings of this co-operative approach towards industrial problems are to be seen in the Industrial Truce resolution passed at the Industries' Conference held in December, 1947. In order to attain the objectives of the resolution, the conference recommended—

(a) that the fullest use should be made of statutory and other machinery for the resolution of industrial disputes in a just and peaceful manner;

(b) the establishment of machinery for the study and determination of fair wages and conditions of labour and fair remuneration for capital, and methods for the association of *labour* in all matters concerning industrial production;

(c) the constitution of Works Committees for the settlement of disputes; and

(d) the examination of the problem of industrial housing.

After the adoption of this resolution, the number of man-days lost has decreased:—

Year	Total number of man-days lost
1947 . . .	1,380,000
1948	653,000
1949	541,000

We hope the Trade Unions Bill and the Industrial Relations Bill now before Parliament will, after such adjustments as may be necessary to secure agreement between the interests concerned, further strengthen the foundations of industrial peace in this country.

A further step in the implementation of this positive policy would be more active cooperation between management and labour in industrial relations. We are happy to find that the need for this was authoritatively recognized by representatives of Industry and Labour at the Second Session of the Central Advisory Council of Industries when they passed the following resolution:—

"The Council considers that in order to place industry in a healthy competitive position, both for

supplying internal needs and for increasing exports, production must be increased. quality must be improved and costs and prices reduced. This will require more efficient and better forms of management, rationalisation of plant and machinery, fuller utilisation of installed capacity, and higher productivity of labour. Individual proposals for effecting such improvements will in many cases be mutually agreed to by management and labour in their common interest. The Council recognises, however, that where such proposals involve large displacement of labour, intervention of Government may become necessary. Realising that these improvements on a large scale can only be effected according to a well planned programme of economic expansion and industrial reorganisation, the Council recommends that a special committee or committees should be appointed to study the problem, with the assistance of such technical experts as may be necessary. These committees should deal with the essential industries in the first instance, a list of which will be indicated by Government. Their reports will be considered by the Standing Committee of the Council which it is proposed to constitute, and Government will take suitable action on its recommendation".

This resolution appears to have been considered at a meeting of the Standing Committee of the Central Advisory Council of Industries which endorsed the constitution of Working Parties on the lines of the Tripartite Parties which were set up in the U.K. shortly after the first labour Government came into office in 1945. We note that the Government of India have recently constituted three working Parties on the Cotton Textiles, Coal and Heavy Engineering Industries. In Appendix VIII, we reproduce the resolution passed by the Standing Committee and would like to emphasise that rationalization in all its aspects holds out the only hope of adjusting costs of production to the level of costs elsewhere, and maintaining the competitive position of Indian industries both in the domestic and the external markets.

SECTION C

Training of Labour

Government Schemes for Technical and Vocational Training

243. We now turn to an important factor which affects Labour-efficiency in the long run, *viz.*, of education and training. In course of our enquiry, many witnesses spoke to us about the need for technical training of different grades of labour and the lack of necessary facilities for

this. The witnesses representing the Ministry of Labour have explained to us the schemes of technical training that the Government of India are administering in collaboration with the States and as we think that the main facts about these schemes should be widely known, we give below a brief description of them. The Ministry of Labour have the following schemes in operation at present:—

(i) Technical, vocational and apprenticeship training schemes for ex-servicemen;

(ii) technical, vocational and apprenticeship schemes for displaced persons from Pakistan;

(iii) schemes for the training of Instructors for the Government's training centres.

The first scheme was instituted in March, 1946, shortly after the termination of the War; the second early in 1948 and the third in April 1948. The object of the first two schemes is to provide facilities for training to ex-servicemen and displaced persons in certain trades and particularly engineering and building trades, and vocations particularly non-engineering trades and occupations *i.e.* mainly cottage and small-scale industries. The apprenticeship schemes provide for training facilities in factories and workshops in collaboration with private industry. The scope of the two technical and vocational training schemes has now been extended to include other adult civilians possessing certain minimum qualifications—generally two standards below the Matriculation Standard—except for certain trades for which the minimum standard will be a pass in matriculation or its equivalent.

We understand that upto the end of January 1950 over 25.000 trainees have passed out of these centres. Every effort is being made to make this training thoroughly practical and efficient. We trust that industrialists will keep themselves in touch with these centres and draw on them for the trained labour they need.

Besides the training schemes run by the Ministry of Labour there are other training schemes which are under the control of other Ministries of the Government of India. Thus, the Railway Board, the Ministry of Works, Mines and Power, and the Ministry of Education—to name only a few of the more important of the departments concerned—administer schemes of practical training either directly or through the State Governments.

244. There is one important lacuna in our schemes of technical training, which we brought to the notice of the representatives of the Ministry of Labour. The facilities that now exist in this country for the training of technicians of the foreman class are extremely limited, with the result that in many lines of manufacture, India has still to depend for this type of technical ability on foreign sources of supply. In any scheme of technical training intended to promote the supply of this type of skilled labour it is essential—

(i) that the preliminary selection of trainees should be made out of technicians who have already worked in a factory and have had opportunities to familiarise themselves with the technical processes of particular branches of the industry for some years and

(ii) that the training imparted should be of such a high calibre as to enable them in due course to take independent charge of particular technical processes in the industries from which they were recruited. Such a scheme can work only if the major industries are prepared to take a long view of their personnel requirements and assist in a programme of high-grade training in specialized technical institutions. Institutions for such training should be organized and controlled by groups of industries with the cooperation of the Government. We have in mind technical institutes of the type of the Technological Institute recently established in Calcutta under the auspices of the Indian Jute Mills Association.

Training of Technologists

245. We shall now conclude with a few observations on the training of technologists as distinct from technicians. A trained technician may be defined as a man who, without aspiring to reach one of the directing positions in industry, is nevertheless fully competent to understand, control and maintain the technical processes committed to his charge. A technologist, on the other hand, is a man "capable of appreciating the latest progress in research laboratories and applying the results to practical engineering or processes in industry".* The object of training in the former case is to train a body of men in specific skills with such tools as are required for those skills; the object

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the Barlow Committee (1946).

of training in the latter case is to create a different type of men, who will be familiar with the principles of science and be able to apply them to the problems of industrial engineering or processing technique. The circumstances of industrial development in India during the last fifty years did not favour the rise of this technological class; the industries relied on foreign specialists or consultants for high-level technical advice. The measures recently taken to strengthen technological education through the activities of the All India Council of Technical Education and its Boards of Studies have expanded the facilities for technological education in this country. The establishment of an Institute of Higher Technology at Hijli (West Bengal), modelled on the lines of the well-known Massachusetts Institute of Technology in the U.S.A., is a notable step in the same direction, but clearly there is need for more institutes of this type.

CHAPTER XVIII

TERTIARY PRODUCTION IN RELATION TO INDUSTRIAL DEVELOPMENT

Section A

Significance of Tertiary Production

246. In this Chapter, we propose to discuss the role of some forms of tertiary production in industrial development. Tertiary production consists of a type of economic activities, the more important of which are distribution, transport, public administration, domestic services and all other activities producing non-material goods. Its importance in the process of industrialization is often ignored, and yet it influences this process in two significant ways, one direct and the other indirect:

(a) *first*, by creating conditions necessary for such industrialization, *e.g.*, roads, railway, transport, shipping, etc. and

(b) *secondly*, by opening new avenues of employment which, in their turn, increase the effective demand for industrial goods.

In Chapter VIII we have included a tabular statement showing the proportions of gainfully employed population in the different forms of production. It will be seen from columns 4 and 5 of this table that the percentage of population engaged in tertiary production exceeds the percentages engaged in Industry and Mining. In our own country, the relevant percentage is 17 according to the above Table, but 23·2 according to Dr. Colin Clark's calculation.* In any case it is clear that the percentage of gainfully occupied population engaged in different forms of tertiary production is higher than the percentage employed either in Industry or Mining. As the process of industrialization is intensified, the relative importance of tertiary production to total employment will increase. For "industrialization does not merely consist in the development of secondary industries. It also induces or is conditioned by a parallel growth of services such as

*Conditions of Economic Progress, Table on p. 179, Chapter V.

transport, distribution, banking and insurance, administration, the liberal professions, etc."*

In what follows, we propose to refer to the following services:—

(a) Road Communication
(b) Railway Transport
(c) Shipping Services
(d) Banking Services.

Section B

Some Specific Industries and Services

(a) Roads and Railways

247. The facts about road communication in India are fully set out, with a wealth of statistical detail, in a Government publication entitled the "Basic Road Statistics of India, 1948". The following Table shows the mileage, nature etc. of roads:—

Table 35

Road mileage in British India for various years

Year	Roads maintained by Public Authorities		Roads maintained by Local Bodies		Total Length of all Roads	
	Metalled	Unmetalled	Metalled	Unmetalled	Metalled	Unmetalled
1926-27 .	26,850	20,920	32,260	119,110	59,110	140,030
1937-38 .	24,236	15,158	39,470	205,327	63,7[illegible]6(c)	220,485
1943-44 .	31,349	17,920	38,627	139,367	69,976	157,287

(c) Decrease in mileage due to separation of Burma and Shan States.

Source: *Ministry of Transport; Basic Road Statistics of India.* 1948.

The importance of road communication in the economic development of a country like India where the villages lie scattered about far away from the railways hardly needs any emphasis. We had the advantage of examining the representatives of the Indian Roads and Transport Development Association in Bombay. The current Roads Policy is based on the recommendation of the Indian

*INDUSTRIALIZATION OF BACKWARD AREAS by K. Mendelbaum (page 22).

Roads Congress held in December 1943. The main recommendations of this Conference were that:—

"(a) roads should be divided into four classes, namely, national highways, provincial or state highways, district roads and village roads; the national highways to be the frame work for the country's road system;

(b) all these classes should be regarded as of importance for the national welfare; one class should not progress at the expense of another; development should be balanced as between the classes and proceed in a planned sequence;

(c) the Centre should assume financial liability for constructing and maintaining national highways according to a plan which would also provide for balanced development of other classes; the Centre should have an effective say in the use and control of national highways; and

(d) co-ordination and control should be exercised by an independent Road Board with adequate financial power and sufficient authority to execute a statutory plan and carry out day-to-day administration; the Road Board being guided in matters of policy by an Advisory Council."

In pursuance of these recommendations, the Government of India have embarked on a policy of construction of national highways under central control and direction. "The other three classes of roads were left to be developed by the States with particular reference to marketing and bringing every village within half a mile of a public road".* While we appreciate the reasons for the importance attached to national highways, we feel that one consequence of recent policy has been to tip the balance heavily against roads of "local" as distinct from "all-India" importance. We attach the greatest importance to the development of village and district roads for two reasons. *First,* they are an essential precondition to the reorganisation of our agriculture. *Secondly,* it is impossible to contemplate any large-scale development of cottage or small-scale industries in the rural or semi-urban areas or any plan of industrial decentralisation without a net-work of district and village roads. That these roads will ultimately justify, even from the narrow financial point of view, the capital outlay incurred on them was the conclusion reached on the results

*2nd Report on Reconstruction Planning (1944)—page 28.

of a "pilot" road survey undertaken at the request of the Government of India by the Indian Roads and Transport Development Association, Bombay in 1943. Some extracts from the Report of this Survey are given below:

> "The survey which was carried out with the fullest co-operation of the Provincial Government, the Director of Agriculture and local bodies and local officers of the area concerned, showed that financial benefits to the community would occur under three main heads, increase in land under tillage, greater cultivation of money crops including fruits and vegetables and savings in transport costs. In the selected areas, the financial benefits to the community under these three heads were estimated at Rs. 12 lakhs per year, whereas the necessary roads including satisfactory maintenance for 20 years would cost less than Rs. 4½ lakhs annually, including 3½% interest on a road loan redeemed in these 20 years. Thus, for every 100 rupees spent on roads, the return through increased earnings to the community would amount to Rs. 277. This is independent of the inevitable rise firstly in the revenues to Government from various sources such as land revenue, income-tax and motor transport taxation and secondly in the additional traffic with which roads would feed the Railways. A still greater asset would be the social advancement of the community through educational progress, provision of health services, personal enjoyment and the provision of the many other amenities of civilization, not capable of measurement in terms of rupees, annas and pies."

We, therefore, recommend that, consistent with the needs of defence or internal security, high priority should be given to the development of district and village roads. Having regard to our deficiencies in these respects, a programme of road construction for each State will have to be drawn up in the light of its requirements and plans for industrial expansion in the future. Here too an order of priorities will be necessary; otherwise there is considerable risk of haphazard development.

(b) Railway Transport

248. The aspect of Railway Transport that primarily concerns us is the Railway Rates policy in its effect on the local processing of raw materials and the pattern of industrialization. But before we proceed to consider this subject we shall say a few words about the facilities offered by Railways to trade and industry. The Table reproduced below will show the mileages, etc., of Indian Railways.

TABLE 36

Route Mileage open on 31st March (Class I Railways).

Year	Single Line	Double, treble, etc. lines as the case may be	Total
1937	33,078·94	3,494·14	36.573·08
1947	33,071·34	3,834·78	36,906 12
1949 . .	27,040·80	3,084·69	30,125·49

The effects of Partition on Railways were far-reaching. They disrupted the system of railway communication in certain regions; created small pockets; raised difficult personnel problems which still await final solution; altered the disposition of traffic; created many major operational problems; and in particular seriously affected the movement of basic raw materials and primary export commodities, *e.g.*, jute, coal, tea and petroleum products. Coming as these problems did on the top of the steady deterioration in the transport situation since the beginning of the war, the facilities available to trade and industry were greatly reduced during the years 1947 and 1948. Fortunately the Railways have almost recovered from these immediate after-effects of partition and as the Hon'ble Minister for Transport and Railways observed in course of his Budget Speech for 1949-50: "Partition as a profoundly disturbing factor in our economy has not spent itself out completely yet, but is rapidly receding in the background, and we are progressively settling down to the new and altered conditions created by it. The Railways have registered this trend perhaps even more quickly than other sectors of our economic make-up". This claim is fully borne out by the rapid improvement in the provision of wagons for coal and for moving textiles and other essential articles.

Railway Rates Policy

249. We now turn to the question of railway rate policy on which we received a good deal of evidence. It was generally admitted that the revised railway rates structure, which had come into effect from the 1st October, 1949, went a long way towards the rationalization of railway rate by reducing the multiplicity and complexity of the class and scheduled rate, and by eliminating the anomalies which arose from the calculation of rates on the basis of individual railways' mileage in the booking of through traffic. But the basis of the revised rates structure, which was the

replacement of the old "flat" class rates by the "telescopic" class rates in which the unit charge declined with distance created some new problems. *First,* we were informed that the new basis of rating encouraged "long hauls" as against short movements and to that extent discouraged the local or regional processing of raw materials. *Secondly,* we heard complaints to the effect that the process of rationalization of railway rates had in some cases resulted in an increase of rates for "short hauls". *Thirdly,* it was pointed out that, while the old bias in favour of export and import traffic to the detriment of internal development had disappeared, the working of the "telescopic" system, coupled with the revised class rates, had resulted in the maintenance of the old differential advantages which factories in the port towns of Calcutta, Madras and Bombay, enjoyed. In the course of our discussion with the Railway officials we understood that the existing rates structure was based on the following principles:—

"(a) Reasonableness of rates *per se*—This principle is commonly referred to as "charging what the traffic will bear", that is, fixing the charge for each variety of goods according to its ability to pay for transportation. This takes into account the value of the commodity, the use to which it is put and the stage of its manufacture. In the case of industries, it also takes into account the fact whether the industry is in its infancy or has fully developed;

"(b) considerations regarding potentialities of traffic both long term and short term;

"(c) avoidance of undue preference to persons or localities or any particular description of traffic (Section 42-A of the Indian Railways Act 1890);

"(d) operating costs of Railways which also take into account factors, such as, the bulk of the commodity in relation to its weight, risk of damage, wastage in transit and the volume of traffic".

We were further informed that within the limits of these principles

(i) low rates had been introduced for many raw materials of industries like ores, gypsum, lime, limestone, sand, pig iron and iron and steel scrap, coal, sugarcane, etc.;

(ii) low wagon rates had been provided for other raw materials, *e.g.*, hides and skins, oilseeds, salt, etc.;

(iii) goods manufactured by the indigenous industry were carried at low wagon load scale of rates (cement, chemical manures, sugar, iron and steel, caustic soda, etc.); and

(iv) special station-to-station rates for raw materials and finished products were quoted between particular pairs of stations, where such special concessional rates were justified.

We think that the question may be examined whether it would not be possible for the Railway authorities to introduce concessions so as to assist in the local or regional processing of agricultural or mineral produce and in the decentralization of industries. Possibly a more liberal use of station-to-station rates might be useful. We understood that under existing orders, such rates can be quoted only with the approval of the Railway administration and often delays take place in the investigation of claims for such rates. We recommend that the Railway Board might examine the question of the simplifying the present procedure with a view to the expediting of decisions on such claims and also consider the possibility of delegating its powers in this respect to regional officers.

250. In Chapter X we referred to the importance of Shipping Services in the development of export and import trade. The relationship between them, is, indeed, reciprocal; each helps and fosters the other. Shipping engaged in foreign trade constitutes an invisible item of export which helps to establish equilibrium in a country's balance of payments. Also, a merchant marine provides a much-needed second line of defence in an emergency. For all these reasons the development of shipping is no less important and urgent than that of basic industries. (c) **Shipping Services**

The two fundamental defects in the shipping position are:—

(i) shortage of tonnage; and

(ii) shortage of trained man-power.

Compared with other countries, the increase in India's gross tonnage during the last thirty years has been negligible. The Policy Committee on Shipping (functioning under the auspices of the Department of Planning and Development)

were so worried by this short-coming that they urged the immediate acquisition of an adequate share in the world's carrying trade:—

> "The vulnerability of India's position has been revealed by the stress of wartime conditions, but by no circumstances more glaringly than by her inability to find adequate shipping from her own resources to provide for the transport of the food supplies required by her. The rectification of this state of affairs should be one of the immediate post-war objectives, not only for commercial reasons but also because the development of the Royal Indian Navy necessarily implies the concurrent development of the merchant navy".

In pursuance of this policy, a sub-committee of the Policy Committee on Shipping laid down the following targets in March, 1947:

(a) India's gross shipping tonnage should be increased to 2 million in order to enable it to carry a cargo amounting to 10 million tons a year and about 3 million passengers;

(b) steps should be taken to acquire an increasing share in the trade of the following categories during the next five to seven years:

(a) 100 per cent. in coastal trade;

(b) 75 per cent. of the trade with Burma and Ceylon;

(c) 50 per cent. of India's distant trades;

(d) 30 per cent. of the trade in the Far Eastern Waters.

There were only two ways in which additional tonnage could be obtained—by building locally or abroad or by purchases abroad. The financial difficulties of Government as well as of the private shipping firms together with the high costs of construction in India's ship-building yards have prevented any large-scale building in India. The same difficulty has also held up purchases abroad, with the result that little progress has been made in achieving the targets prescribed by the Policy Committee. The recent efforts of Government to assist ship building in Scindia's yards at Vishakapatnam, and to acquire an increasing share of the carrying trade in western waters through the establishment of a shipping corporation are well known. The difficulties to which we referred, however, still exist and it

is unlikely that any substantial improvement will be achieved in the near future.

Shortage of technical shipping personnel is no less acute, but energetic steps have been recently taken to remove the deficiency under certain categories. These include:

(a) the establishment of a Nautical College in Bombay in 1948 for the training of Executive (Deck) Officers. It has been estimated that a target of 2 million tons would eventually require about 1,500 certified Deck officers. It is proposed to establish similar colleges in Vishakapatnam and Cochin;

(b) the establishment of Marine Engineering Colleges in Bombay and Calcutta for the training of certified Engineers. Similar Colleges are also proposed at Vishakapatnam and Cochin;

(c) the introduction of a system of apprentice training for educated young men with pre-sea training courses for them. We attach much importance to this scheme of apprentice training as quick results can be obtained only in this way, and would recommend that Government should give all possible assistance to the shipping companies in carrying out this scheme.

One serious lacuna in the present arrangements for technical training for shipping personnel is the absence of an organised scheme for the training of Deck and Engine room crew. We understand that proposals are under examination to meet this need.

The representatives of the shipping industry who appeared before us pressed for a reformulation of Government Policy in the light of current developments and "a charter of Rights for Indian Shipping and Ship-building". We do not see any need for this, as the Government of India are already committed to a policy of assisting shipping and ship-building and have given evidence of their determination to give effect to this policy.

251. In Chapter XV, we touched on the role of the Banking system in the process of capital formation and (d) **Banking Services**

referred to the particular problem of the supply for working capital to small scale industries. In this Section, we confine ourselves to general observations on the role of banks and connected institutions in promoting industrial employment and foreign trade.

Limitations of Indian Banking

252. The following table shows the progress of banking in this country during the last fifty years:

TABLE 37

Progress of Banking in India since 1900

Year	No. of Banking Companies			Private Deposits in Crores of Rupees
	Scheduled	Non-Scheduled	Total	
1900 . . .		..	20	30
1949 (June) .	101	657	758	850

Adjusted for changes in the price-level, the real growth of bank deposits is about five times the 1900 level—not a particularly impressive figure for a country of India's size and population. This is due to two reasons which we shall explain below.

(a) The above statistics relate only to organized banking in the country. Outside these banks, lies a vast and unchartered territory, which has always remained the preserve of money lender-*cum*-indigenous bankers. Their number has been estimated at 350,000 but no reliable statistics exist of their number or activities. Being outside the Banking Companies Act and the Bankers' Book Evidence Act, they pursue their activities subject only to the operation of the various Loan Acts, the Agricultural Debtors Acts and the ordinary civil and criminal law. The existence of this unorganised section creates two separate markets for credit, perpetuates the existence of the bazar rate side by side with the Bank rate and weakens the Reserve Bank's control over the country's credit structure.

(b) *Secondly,* even within the organized sectors the Reserve Bank has been unable to link the banking system with the machinery for the supply of credit to agriculturists in spite of its efforts to do so by a progressive reduction in the bank rate for the rediscount of agricultural paper intended for financing marketing operations. The following table is revealing:

TABLE 38

The amounts applied for, sanctioned and drawn in the case of Provincial Co-operative Banks

Rs. in lakhs.

Year	Amount applied for	Amount sanctioned	Amount drawn	Rate of interest
1938 . . .	5	5	5	3
1940 . . .	24	24	24	3
1941 . . .	5	5	5	3
1942 . . .	20	20	20	3
1943 . . .	4	3	·5	2
1944 . .	20	20	20	3
1945 . . .	5·6	4·3	.	1½
1947 . .	7·15	6·65	1·8	1½

These limitations of commercial banking have thus confined its services almost wholly to large scale organized trade and industrial undertakings in urban areas.

Even within these limits the existing credit facilities offered by the commercial banks to business and industry are hardly adequate to their growing needs. We have already referred elsewhere in this Report to the shortage of working capital which impedes industrial development. A suggestion has been made that the supply of working capital to Indian industries could be considerably increased if scheduled banks were placed in a position to obtain advances readily from the Reserve Bank not only against Government or guilt-edged paper, but wherever they are in a position to offer satisfactory security. In view of the importance we attach to a liberal supply of working capital to our industries commensurate with their requirements, we recommend that the entire question be examined by Government in consultation with the Reserve Bank at an early date.

Outside the commercial banking system there are no important specialized banking institutions with the exception of the Indian Finance Corporation and its counterparts in a few States, to deal with the problems of industrial finance. In this respect India's banking structure bears a striking resemblance to that of many other countries in Asia. The following extract from the Economic Survey of Asia and the Far East (1948) provides an interesting commentary on the present position:

> "The modern banking systems of many countries of the region are as yet in early stages of development. They are dominated by commercial banks,

and specialization of functions has not gone very far. Agricultural credit institutions, such as co-operative societies, occupy a comparatively unimportant position, and the credit facilities provided by them are not adequate......Special institutions for industrial finance are practically non-existent, although in some countries they are springing up under Government auspices. The region has to depend to a great extent on the services supplied by foreign banks".

The writer of the survey ends with the following words:

"Lack of finance is one of the major factors holding up the development of agriculture and industry in a number of countries. Expansion of banking facilities, particularly, for agriculture and industry is urgently called for".

Need for Functional specialization: Scope of Indian Finance Corporation

253. It is clear from the above extract that without a larger measures of functional specialization, the existing banking system will not be able to render adequate assistance to industries particularly the small scale industries. A beginning has been made with the establishment of the Indian Finance Corporation and we look for an increase in the number of such corporations. As has been already mentioned in Chapter XV, the Industrial Finance Corporation sanctions loans only for the 'block' of industrial undertakings. In the twelve months ending 31st March 1950; the corporation sanctioned accommodation to industries aggregating Rs. 3.41 crores approximately. An analysis of the loans by industries is as follows:

Type of industry	*Amount sanctioned*
	Rs. in lakhs
1. Textile Machinery	43
2. Mechanical Engineering	20
3. Electrical Engineering	25
4. Cotton Textiles	78
5. Chemicals	8
6. Cement	40
7. Iron and Steel (Light Engineering)	25
8. Electric Power	9
9. Aluminium	40
10. Mining	30
11. Oil Mills	1·75
12. Unclassified	20

The distribution of help granted among the States is:

Name of State	*No. of applications sanctioned*	*Amount sanctioned*
		Rs. Lakhs.
Bombay	7	64
Madhya Pradesh (C.P.)	1	10
Madras	2	45
Orissa	2	19
Uttar Pradesh	7	52
West Bengal	5	1,22
Greater Rajasthan	1	30

These figures show the inadequacy of the existing facilities. Till the number of such specialised institutions is increased and their scope enlarged, the commercial banks might consider the desirability of framing special schemes to meet the requirements of small industries.

An Example from Australia

254. In this connection we should like to refer to the work of the Industrial Finance Department of the Commonwealth Bank of Australia and the Commonwealth Savings Bank of Australia. This Department was established under the Commonwealth Banks Act (Part X) and commenced operations on the 2nd January 1946. Its functions are:—

"(a) to provide finance for the establishment and development of industrial undertakings, particularly small undertakings;

"(b) to assist in the establishment and development of industrial undertakings;

"(c) to provide advice on the operations of industrial undertakings with a view to promoting the efficient organisation and conduct thereof".

The Act has laid down that in determining whether or not finance should be "provided for the establishment or development of an industrial undertaking, the Bank, must have due regard to the prospects of the undertaking becoming or continuing to be a profitable undertaking". From a report prepared by the General Manager of the Industrial Finance Department, it is seen that since the Department commenced operations four years ago, 60,000 applications for assistance by way of overdraft, hire purchase etc. have been approved for a total of £38,068,536 of which £19,914,983 from 41,390 borrowers were outstanding on the 28th December 1949. We recognize that consistently with the earlier traditions of British banking which are still widely followed in this country the participation of commercial banks in industrial financing of the type

visualized above is not encouraged in India, but would suggest nevertheless that the modern practice in this respect in countries like Australia may be studied with a view to drawing such lessons from it as may be applicable to the circumstances of this country.

Exchange Banks

255. Another important weakness in the country's banking structure is its dependence on foreign Exchange Banks. The author of the Economic Survey for Asia and the Far East (1948) thus comments on this deficiency:

> "Foreign banks occupy an important position in the banking structure of the region. They specialize in foreign trade finance in addition to ordinary banking business. They provide certain essential services for which the indigenous banks either lack the resources or the ability and experience. These services are doubtless an important part of the region's invisible imports causing an appreciable drain on foreign exchange".

We feel sure that the subject is receiving the attention of the Reserve Bank of India.

BOOK VI

ORGANISATION AND MACHINERY OF ADMINISTRATION

In this Book we propose to discuss some problems of organization and machinery of administration. Paragraph 2(b) of our terms of reference requires us to advise Government as to the machinery required to implement the policy that we may recommend. Consistent with our general approach in Chapter XIX we examine the machinery for planning and economic coordination to which, in our view, the machinery for protection to and assistance of industries must be integrally related. We make some general observations on the relations between planning and protection and examine some proposals for improving the existing machinery for economic coordination in the Government of India. In Chapter XX we examine the structure and functions of the proposed Union Tariff Commission and some aspects of its organization.

CHAPTER XIX

MACHINERY FOR PLANNING & COORDINATION OF INDUSTRIAL DEVELOPMENT

SECTION A

Planning and Protection

256. In this chapter, we propose to discuss some aspects of the machinery for Planning and the coordination of economic activities relating to trade and industry in the context of our general approach to the problem of protection.

257. In Section H of our questionnaire on "Organization, Methods and Procedure", we enquired whether the present administrative machinery was adequate to deal with the problems of implementation that would arise out of protection, and also whether this policy indicated the necessity for a Trade and Industrial Planning Commission. We have received much evidence on these subjects. We were impressed by a preponderance of opinion among all sections of witnesses in favour of an organization for the *over-all* planning of the economic activities of the country and for an appropriate machinery for the coordination of the activities of the Ministries and Departments which deal with the industrial and commercial problems of the country. While we were considering these views and formulating our provisional conclusions, the Government of India announced the constitution of a Planning Commission under the chairmanship of the Prime Minister. In Section B which follows, we shall therefore confine ourselves only to those aspects of the Planning Commission's work that are related to the findings and recommendations of our report.

258. The general case for Planning has been fully set out in the Resolution dated the 16th March, 1950 in which the present Planning Commission was set up. The Resolution traces the history of Planning in this country from the establishment of the National Planning Committee in 1938 and enunciates the social and economic objectives in the context of which it must carry on its day to day work. These objectives are those set out in the Constitution of

India* under "Fundamental Rights and Directive Principles of State Policy". In order, to appreciate the terms of reference of the Planning Commission, it is necessary briefly to recapitulate the economic case for Planning. Broadly speaking, economic planning—particularly in the industrial and commercial field—is necessary because of

(i) the need for keeping the total cost of development within the limits of the country's aggregate physical and financial resources;

(ii) the need for balanced development of the different sectors of our economy. This requires that a particular development in one sector must be matched by development of the related factors in the other sectors of the economy, which are complementary to the former, and that the calculation of priorities should be with reference to a complementary grouping of the plans to be developed. For example, it is no use planning for the extension of mechanized cultivation without a plan that includes not only proposals for the import of tractors and their spare parts but also for increased supplies of fuel, for servicing and repair facilities, for the training of operatives, for the re-employment of displaced persons, etc. Other examples could be easily given. The important point is to stress the necessity for giving priority not only to development of one particular sector but to a whole range of connected sectors.

The economic case for Planning thus rests on the factor of scarcity and the need for balanced, efficient and economical utilization of resources. This position is now so well understood not only in theory but also in the economic practice of the most advanced countries of the world that it is hardly necessary to elaborate it further.

Planning Vis-a-vis Protection

259. The relation of Planning to Protection or other measures of special assistance to particular industries however needs to be set out clearly. The case for a comprehensive approach to the problem of tariff protection was argued at some length in Chapter XII of this Report. We do not propose to go over the same ground again, except to point out that Planning must inevitably influence the character of tariff making in a variety of ways. The main aspects of

*Articles 38 and 39 of the Constitution of India.

economic development in which Planning is likely to impinge on tariff protection may now be enumerated:—

First, on the assumption that, in the public sector, planning will necessarily concentrate on the development of natural resources, the facilities for industrial development in the private sector will also increase. To that extent the quantum of protection or assistance to be given to the industries that seek it will be correspondingly reduced.

Secondly, in so far as Planning promotes decentralization and regional development, the relative advantages of particular areas for the development of industries suited to them will tend to be less unequal than they are at present. This will counteract the tendency towards concentration of industries in particular areas and may enlarge the scope for competition. To this extent, the burden of protection on the community may be reduced.

Thirdly, Planning will influence the nature of protection through the chanelling of investments along particular directions. In so far as the fields of planned development are determined primarily by economic considerations, the effect of planning may well be to divert industrial investments from economically less desirable projects, and thereby to reduce the potential burden of protection on the community.

Fourthly, the order of priorities, which any plan of development in the industrial sector must necessarily prescribe will broadly define the fields in which the national interest will predominate and thereby provide a positive guide for the tariff making authority.

Fifthly, any Planning Authority working on the principle to which we have alluded in paragraph 259 above, must lay down a programme of balanced development. In the industrial field, this policy will require the formulation of plans not for the establishment of a few isolated industries, on an *ad hoc* basis, but for the promotion and development of inter-connected groups of industries, each group being taken as a whole unit for the purpose of development. In so far as the

industries in this group are complementary to each other, a policy of protection based on such priority grouping, will enable these industries to reap the advantages of not only the internal economies inherent in the scale of production of particular industries but also of the external economies which the simultaneous and co-ordinated growth of a series of industries makes available to one another. For, each one of a series of inter-related industries provides a market for the goods of others and their co-ordinated development makes possible an increasing division of labour which reduces the cost of every industry in the group. To quote from a memorandum which was submitted to us in Calcutta:

"The aggregate cost of developing a series of industries, A, B, C and D .... simultaneously is likely to be less than the sum total of the cost of developing them one by one over a period of time".*

We think we have said enough to explain how, in our view, Planning and Protection are related to each other. The latter is only an instrument of the former and can render service to the community only if a practical comprehensive Industrial Plan for the country as a whole is formulated and other measures necessary for its fulfilment are devised and adopted.

Structure of Planning Organisation under a Democratic Regime

260. In Book IV we visualize a policy of planned development in various sectors of our economy. In Chapter XI of the Book we considered the part of the State in the furtherance of this plan. In this context it will be relevant to indicate some issues of policy which arise in connection with planning in a mixed economy and under a democratic regime. The more important of these questions are:—

(i) the limits of Central Planning—the respective spheres of the Central Planning Commission and the State Planning Authorities and the liaison between them;

(ii) the roles of inducement and direction in the technique of plan fulfilment. Under the head inducement are included those measures which attempt to bring about a change in the structure of production through changes in the forces of demand and supply working in a free market.

*Memorandum submitted by the Honorary Director, Khoj Parishad Calcutta.

Price-regulation is an important example of this method. Under the head "direction" are included those measures which are designed to alter the pattern of production through coercive methods, *e.g.*, rules, regulations and orders. The respective spheres of the Central and State Planning Authorities and the extent to which one or other of the policies of inducement and direction can be followed will depend on a variety of factors. We need only enumerate the more important of them:—

(a) the nature of the relationship between the Central and the State Planning Authorities; this will depend on the distribution of powers between the Centre and the States;

(b) the extent of the economic field covered by State and private enterprises. In a mixed economy, where the public sector covers a small area of the economic field, more reliance may have to be placed on the market economy;

(c) the nature of the sector to which the Plan relates;

(d) the nature of the Plan *e.g.*, whether it calls for structural changes in the demand or the supply side. Ordinarily supply is more amenable to direction than demand, which can be better influenced by inducement;

(e) the efficiency of the economic and statistical services and the instruments of control and regulation at the disposal of the Planning Authority; and

(f) the quality of the administration.

SECTION B

Co-ordination of Economic Policy

261. Closely connected with planning was the other important question raised before us about the co-ordination of the current economic activities of Government.

The three Ministries which are primarily concerned are those of Commerce, Industry and Finance. The Ministry of Commerce deals with problems of domestic and foreign trade, including the protection of domestic industries against

foreign imports, whereas the Ministry of Industry and Supply is concerned with industrial administration, the development of industries, purchase of stores on behalf of Government and Local Bodies and other related activities. The Ministry of Finance is concerned with balance of payments. Alongside of them are the Ministries of Labour, Agriculture, Transport (including Railways), Works, Mines and Power and Communications. They deal with subjects, which in the case of Labour and Agriculture, have a direct bearing on commercial and industrial problems and which, in the case of the other Ministries, are connected with different forms of primary and tertiary production closely related to industrial development. The problem of economic development is largely the problem of the co-ordination of the policies and activities of these Ministries.

Existing Machinery for Co-ordination

262. The existing machinery for the co-ordination of economic policy in the Secretariat is broadly as follows:—

First, there is the technical scrutiny of a problem or a proposal in the department or office which is concerned with the subject. At this stage technical officers from the other Ministries are often consulted, but this consultation is generally of an informal nature.

Secondly, there is the administrative scrutiny of the problem or the proposal exercised in the Secretariat, when the technical problem is referred to the Ministry concerned by its attached or subordinate department. At this stage (sometimes earlier or later), the problem is subjected to "financial scrutiny".

Thirdly, there is the inter-ministry meeting stage. When a problem or a proposal has been administratively and financially examined, it becomes ripe for discussion at an Inter-Ministry meeting. It is at this stage that the other ministries have an opportunity of examining the proposal of the sponsoring Ministry from their special points of view, and it is here that co-ordination takes place at a high administrative level.

Fourthly, there is the over-all scrutiny of the problem or the proposal by the Economic Committee

of the Cabinet, when it is examined by the Ministers-in-charge of the principal Economic Ministries. This is the stage where co-ordination takes place at a high policy level.

Lastly, there is the final consideration of the problem or the proposal at the Cabinet.

This is the general outline, but informal consultation among senior officers of the Ministries concerned is often interspersed between the different stages and lately regular informal meetings among Secretaries of the Economic Ministries have been a feature of such consultations. Where a problem or a proposal affects a State Government, its views are ascertained either at the end of the third, fourth or the fifth stage.

263. Witnesses who appeared before us informed us that, in spite of the arrangements set out above, in some cases there was still want of co-ordinated action on the part of economic departments. They also said that delays continued to occur in the taking of decisions and carrying them out.

We understand that proposals for closer co-ordination among the economic departments in order to secure uniformity of policy and prompt and concerted action are under the active consideration of the Government of India. In connection with these proposals, we recommend that the suggestion which has been made from time to time and which has also been placed before us for a Board of Trade and Industry for India may also be examined. Under this, all administrative organisations primarily concerned with the execution of policies in trade and industry would come within the purview of a single body. We append a chart showing the organisation of the Board of Trade in the U. K.

ORGANISATION AT OCTOBER, 1948

U.S. LEVEL — ASST. SECY LEVEL

PRESIDENT — Secretary for Overseas Trade.

Permanent Secretary

Parliamentary Secretary

- Second Secretary (Overseas)
  - 1. Commercial Relations & Export Department
    - (i) Commercial Relations & Treaties Deptt.
    - (ii) Export Promotion Deptt -Trade Commissioner Service.
  - 2. German Division
- Second Secretary (Home)
  - 3. Films Branch
  - 4. Raw Materials Deptt —Raw Materials Controls and Directorate Officer (17 in number)
  - 5. Priorities Division
  - 6. Industries & Manufactures Deptt (General) Division
  - 7. Industries & Manufactures Department (Division 1)
    - Local Price Regulation
    - Committee Officers (17 in number); Area Accountant Officers (15 in number)
    - Investigating Officers
  - 8. Industries & Manufactures Department (Division 2A & 2B)
    - Hosiery Control
    - Cotton Directorate
    - Matches Control
    - Furniture Directorate
- 9. Distribution of Industry & Regional Division — Regional Organisation
- Principal Finance Officer
  - 10. Insurance & Companies Department & Bankoruptcy Deptt.
    - Official Receiver in Companies Liquidation
    - Official Receivers' Office.
  - 11. Patent Office & Industrial Property Department — Manchester Office
  - 12. Administration of Enemy Property Department
  - 13. Finance Division
- 14. Solicitors Department
- 15. Establishment Division
- 16. Statistics Division
- 17. Information Division
- 18. Intelligence & Parliamentary Branch.

CHAPTER XX

THE STRUCTURE AND FUNCTIONS OF THE TARIFF MAKING AUTHORITY.

Tariff Making Authority vis-a-vis Planning Commission

264. We shall now consider the relationship between the Planning Commission and the tariff making authority. We have received much evidence on this subject. While there was general agreement that the activities of the Tariff Board should be correlated with those of the Planning Commission, one body of opinion went further and suggested that the Tariff Authority should become a wing of the Planning Commission. According to the advocates of this view, since tariff protection would be conceived, in future, only as an instrument for the planned development of industries, it followed logically that the Tariff Authority should form part of the Planning Commission. We have considered this suggestion carefully but are unable to accept it. It rests upon a conception of the Planning Commission which is different from that of the Government of India. If the Planning Commission was responsible not only for the formulation of plans but also for their execution, it might be necessary to place under its direction and control the organs of Government connected with the promotion of industrial development like the Tariff Board or the Development Wing of the Director General of Industry and Supply. But as the Planning Commission is advisory and consultative and execution remains with the competent Governments, it would be hardly appropriate to incorporate the Tariff Authority into the organization of the Planning Commission. Apart from this, the nature of Tariff Board's functions which are quasi-judicial in character is a strong argument in favour of that body remaining a separate organization. We are, therefore, unable to accept the suggestion that the Tariff Authority should be reconstituted as a wing of the Planning Commission, although as we have already said we are in favour of the maintenance of the closest possible liaison between it and the Planning Commission.

Status of the Tariff Commission

265. The necessity for a quasi-judicial authority in any scheme of tariff protection is now so universally recognized that the case for it needs no elaboration. In view of the

functions that we propose to suggest for it and its future status and importance, we should like the future Tariff Authority to be designated as "The Tariff Commission". In the paragraphs that follow we shall use this designation instead of the more familiar "Tariff Board".

266. We reiterate the recommendation of the last Fiscal Commission as to the importance of making the Tariff Commission a permanent body. "It is evident" they said, "that the Board must be a permanent body. Consistent decisions and continuity of policy are of primary importance, and these cannot be secured except from a permanent Board. We, therefore, rule out at once any idea of such an organization as has been set up in the United Kingdom to deal with enquiries under the Safeguarding of Industries Act. There the Board of Trade refers particular enquiries to a committee consisting of five persons selected by the President of the Board from a permanent panel appointed by him mainly of men of commercial or industrial experience. No arrangement of this kind would give the continuity which is essential to the Tariff Board we contemplate".

We would like to add that the case for a permanent Tariff Authority has received support from the practice of all countries which have set up Tariff Boards or Commissions. Even in the U. K., the Import Duties Advisory Committee which was constituted in 1932 under the Import Duties Advisory Committee which was constituted in 1932 under the Import Duties Act of the year replaced the *ad hoc* committees set up under the Safeguarding of Industries Act, 1921—in fact, it was, unlike the latter bodies, a permanent organization. The I.D.A.C. was set up in accordance with the provisions of the Import Duties Act, 1932.

267. That brings us to another point about the status of the Tariff Commission on which also opinion was almost unanimous. Having regard to the increasing importance of the work that we visualize for the Commission in future we consider it essential that it should be placed on a statutory basis. The case for a Statutory Commission can hardly be better argued than it has been in the following extracts from a pamphlet written by Sir Percy Ashley, who was for a long time Secretary of the Import Duties Advisory Committee:

> **"The purpose of the first of these changes was to remove the framing of the detailed tariff so far as**

possible from the political arena. Clearly the principles underlying the tariff must remain a political issues; the Government could not divest itself of responsibility for them; but it was felt to be desirable that in the detailed application of the principles so determined there should be no scope for the kind of political activity known elsewhere as "lobbying" or "parliamentary logrolling". What was aimed at was the establishment of an authority of a judicial nature, not under the control or subject to the direction of any Minister and guided solely by the quite general directions given to it by the Act".

In order to maintain the independent character of the Tariff Commission and to ensure that its recommendations carry weight we recommend that the Commission should be constituted by an Act of Parliament.

Composition of Tariff Commission

268. As regards the composition of the Commission, we think that it should consist of five Members including the Chairman, but powers should be taken in the proposed statute to increase the number to seven, if necessary. There should also be power to co-opt assessors or advisers for particular purposes. The qualifications and standing of the Members should be such as to inspire public confidence. Our views on the specific qualifications needed for Members are generally those recommended by the last Fiscal Commission. We are definitely opposed to representation of interests or regions on the Commission and would emphasize that Members should be selected primarily on the basis of their competence for the functions which they will have to perform coupled with their standing in the profession, business or service in which they are engaged or in the public life of the country. The disqualifications enumerated in statutes of this type should be attached to the membership of the Commission. Special conditions should also be laid down: for instance, the members on appointment must disclose the nature of their interest in private companies, either as shareholders or otherwise, and on relinquishment of office should be debarred from holding any position of trust and responsibility in a private industrial undertaking for a period of three years except with the prior approval of Government.

Functions of Tariff Commission

269. As regards the functions of the Commission, we consider that they should be as follows:

(*A*) *Enquiries connected with protective and revenue Tariff.*—These will include—

(i) tariff enquiries proper *i.e.*, enquiries into applications for protection;

(ii) enquiry into cases of alleged dumping;

(iii) enquiry into variations of protective duties;

(iv) enquiry into tariff concessions under Trade Agreements.

Enquiries under (i) and (iv) should normally be initiated at the instance of the Government of India. In respect, however, of industries included in an approved plan, it should be open to the Tariff Commission to accept applications from the industries concerned. In regard to the other two items, the Commission may initiate investigations on its own motion or at the instance of the Government of India.

(*B*) *Enquiries connected with prices and the general effects of protection on the economy of the country.*—These will include·

(i) enquiry into the prices of particular commodities;

(ii) enquiry into the effects of tariffs on the level of prices;

(iii) enquiry into the effect of tariffs on the cost of living;

(iv) enquiry into the effect of tariffs on other significant facts in the country's economy.

The Tariff Commission will undertake these enquiries only at the instance of the Government.

(*C*) *Review of protective duties.*—Enquiries under this heading will include:—

(i) investigation into the manner of working of tariffs;

(ii) investigations into the effect of protective duties on the industry—its cost, output, quality, and prospects of expansion;

(iii) investigations into the price policy of protected industries;

(iv) investigations into any developments relating to restraints on trade that may have occurred in industries enjoying protection (*e.g.*, by means of restricting production, maintaining or raising prices);

(v) investigations into any special obligations that may be imposed on the protected industries (*e.g.*, research or training facilities);

(vi) investigations into any anomalies that may arise as a result of the working of protected duties (e.g., the relations between the rates of duty on finished goods, partly finished products and raw materials).

It will be open to the Tariff Commission to carry on enquiries or investigations into these subjects concerning the working of protected industries, as and when it likes, except in cases (iii) and (iv) above where it should act only at the instance of the Government. Apart from *ad hoc* investigations, the Commission should submit to Government a periodical review—preferably triennial—on the working of protected industries. These reviews, which should be in addition to the annual Administrative Reports of the Commission, should deal *inter alia* with the following matters:—

(a) the manner in which the obligations imposed on protected industries by the terms of tariff protection granted to them have been discharged;

(b) the defects and deficiencies from which the protected industries still suffer; and

(c) additional measures of assistance that these industries may require.

The requirement about the submission of triennial reviews should not preclude investigation into the needs of the protected industries as and when they arise.

Powers for summoning witnesses

270. In order that the Tariff Commission can perform its functions efficiently, it will require special powers for the summoning of witnesses and compelling the production of evidence which it considers essential. Similar powers have been given to the U. S. Tariff Commission and were enjoyed by the Import Duties Advisory Committee in the U. K. In course of our discussions with the President and Members of the Tariff Board in Bombay, we were informed that difficulties were encountered in the enquiries relating to cement, cotton piecegoods, woollen piecegoods, electric motors, dry batteries, and certain items of cotton textile machinery for want of such powers.

Staff requirements of the Commn.

271. We need not emphasise that the Tariff Commission should have the service of an adequate permanent staff to

discharge efficiently the functions that we propose for it. The type of staff will include:—

(a) Technical staff to deal with the problems of groups of allied commodities, *e.g.*, metals, engineering, chemicals and ceramics, textiles, miscellaneous industries.

(b) Economic research staff to deal with the economic enquiries which the Tariff Commission will have to handle.

(c) Accounts staff—mostly cost accountants who will need to be associated with the technical and economic research staff.

(d) Administrative staff—whose quality would need to be strengthened in view of the burden that will be imposed on the secretariat of the Commission.

In this connection we should like to refer to the position of the Secretary of the Commission. He will be the pivot of the organization. He should possess sufficient experience of office management, administration and knowledge of economic problems. His duty should be to co-ordinate the work of economic officers, technicians and accountants, to organize field enquiries and plan project studies, suggest new lines of investigation, etc.

While we are anxious that the Tariff Commission should be provided with sufficient and competent staff under the heads we have indicated, it is necessary that the Commission should make the fullest possible use of similar staffs already employed in the offices attached to the Ministry of Industry and Supply or in the other Ministries of Government. We understand the present Tariff Board frequently draws on the services of technicians and experts from D.G., I. and S., Textile Commissioner and other Departments of Governments and this practice should continue.

Public enquiries

272. We shall now deal briefly with the procedure to be followed by the Tariff Commission in its public enquiries. We consider that the enquiries mentioned in paragraph 269 should be normally held in public. Our reasons are the same that induced the previous Fiscal Commission to make a similar recommendation in paragraph 303 of its Report. This was the U. K. practice under the Import Duties Act, 1932 and is the practice of Tariff Boards and Commissions in most other countries. This recommendation does not mean that the Tariff Commission is precluded

from holding any investigations *in camera*. It may well be that some aspects of an enquiry may require such an investigation and this should be permitted.

Need for early action on Reports

273. As soon as an enquiry is completed, the Tariff Commission should submit its report to the Government of India in the appropriate Ministry and Government should be in a position to arrive at a decision on the recommendations of the Commission ordinarily within a period of two months. Whether Government accept or reject the Commission's recommendations, the report of the Commission should be published except such portions as the Government may consider unnecessary and where Government do not accept the recommendations of the Commission their inability to do so should be fully explained in a reasoned statement.

The form and contents of the reports of the Tariff Commission will be a matter of increasing importance in future. The *ad hoc* Tariff Boards before the war used to deal with the facts and problems relating to a particular industry at much length and to go into the claims for tariff protection with a considerable degree of thoroughness. The interim post-war Tariff Board followed a different practice and produced summary reports which contained a brief statement of the problem, a summary calculation of the factors which enter into the cost of production and the fair selling price of the domestic manufactures and the recommendations of the Board without any detailed analysis of the case for protection. This difference in practice was due to two reasons. First unlike the pre-war Tariff Boards, the post-war Tariff Board did not find it necessary to provide in their report detailed justification of the protective measures that they recommended. Secondly, the number of tariff enquiries which the post-war Tariff Board was called upon to undertake immediately after its constitution was very large, and it had little time to spend on argument or exposition. In future, however, the reports of the Tariff Commission should contain an adequate analysis on which all their conclusions are based. Recent discussions in Parliament have made it clear that the country must know the basic facts about a protected industry and that the grounds justifying the grant of protection recommended should be fully placed before it. The arguments for or against a particular claim for protection should, therefore, be marshalled in such a way that they

present to the public a clear picture of the economic and social advantages that may be expected from a scheme of protection and of the over-all cost to the community at which such advantages are obtained.

Importance of non-fiscal recommendations

274. Many of our witnesses complained of delay in giving effect to the recommendations of the Tariff Board as regards non-fiscal measures of assistance. We recommend that the authorities concerned with the grant of such assistance should give special attention to this and furnish to the Tariff Commission an annual statement on the measures of assistance given.

Structure of the statute

275. It will be recalled that in para. 267 we recommended the constitution of a Statutory Tariff Commission. The structure of the Statute will require careful study in the light of our recommendations. A good deal of supporting material can be obtained from the Tariff Board Acts of U.S.A., Canada, Australia, South Africa and the Import Duties Act (1932) of the U.K. These and other connected documents will require detailed examination before our recommendation on this point can be implemented. In our view, the Tariff Commission Bill should include *inter alia* provisions relating to—

(i) the composition of the Commission, without recital of the specific qualifications needed of Members (for that would bring in a needless element of rigidity into the structure of the Commission);

(ii) the disqualifications for Membership (*e.g.*, insolvency, bankruptcy, etc.);

(iii) methods of enquiry, rules about sittings, quorum, formation of panels, etc.;

(iv) functions of the Commission;

(v) powers of the Commission relating to witnesses, documents, etc.;

(vi) directive principles of Protectionist Policy *i.e.*, the general considerations which the Tariff Commission should bear in mind, including the types of obligations that the Commission may in particular cases impose on particular industries seeking protection;

(vii) requirements about submission of Budget Estimates to Government, submission of triennial Reviews and Annual Reports, etc.

All other points may be included in the rules to be framed under the proposed Bill. These rules should prescribe the terms and condition of appointment of the Members of the Commission, the relationship between Government and the Commission, the rules about budget, expenditure, audit, etc. The Commission should be given powers to frame its own rules regarding the internal management of its business, including the appointment of personnel up to a certain stage, rules of business relating to enquiries, review of the effects of protection and other matters.

BOOK VII

FISCAL POLICY IN RELATION TO INTERNATIONAL OBLIGATIONS

In this Book we propose to examine our third term of reference—item (3) in the Resolution of the 20th April 1949; and the additional term of reference relating to the tariff preferences accorded to imports from the United Kingdom under the Indo-British Trade Agreement of 1939 These subjects are also closely connected with the issues of fiscal policy which we have discussed in the previous books. Chapter XXI deals with the Charter for the International Trade Organization. Chapter XXII examines the tariff concessions granted and received by India under the General Agreement on Tariffs and Trade. Chapter XXIII examines the scheme of tariff preferences embodied in the Indo-British Trade Agreement of 1939 in its bearing on India's industrial development.

CHAPTER XXI

HAVANA CHARTER FOR AN INTERNATIONAL TRADE ORGANIZATION

SECTION A

Origin and Development

276. The Charter of the International Trade Organization was signed by representatives of fifty-four nations at Havana, on March 24, 1948. The signature amounted only to the authentication of its text and the Charter required ratification by the governments concerned. Only two countries have so far ratified it.

277. The origin of the Charter may be traced to the Atlantic Charter which was issued on August 14, 1941, by the President of the United States and the Prime Minister of the United Kingdom. Article 4 reads as follows:—

> "They (the United States and the United Kingdom Governments) will endeavour, with due respect for their existing obligations, to further the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity."
>
> "They desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labour standards, economic advancement and social security."

This was further amplified in Article 7 of the Mutual Aid Agreement signed in February 1942 by the United Kingdom and the United States.

Since then the State Department of the U.S. has been actively engaged in giving form and shape to the ideas implicit in the Atlantic Charter and the Mutual Aid Agreement. On December 6, 1945, a State Department document entitled "Proposals for consideration by the International Conference on Trade and Employment" was issued. In response to a proposal by the U.S., the Economic and Social Council at its first meeting held on February 18, 1946, decided to call an International Conference to consider the American proposals on Trade and Employment. First, a Preparatory Committee was formed consisting of eighteen nations. The U.S.S.R. declined the invitation. The Committee held its first session in London between October 15 and November 26, 1946. India was one of the invitees to

this Committee and took an active part in its deliberations. The Committee prepared a provisional draft Charter; but there were a few important points on which no agreement could be reached. A drafting Sub-Committee was therefore appointed and it met between January 20 and February 25, 1947 at Lake Success, New York, and edited the London draft.

The Second session of the Preparatory Committee was held at Geneva between April 10 and August 22, 1947. This was attended by representatives of the 17 nations which were members of the preparatory Committee in London. Several other nations also sent their representatives as observers. At this session the Committee prepared a draft Charter to be considered at a Conference of all nations at Havana (Cuba). in November 1947. At Geneva the Committee also undertook negotiations for the reduction of tariffs as contemplated in Article 17 of the proposed Charter and a General Agreement on Tariffs and Trade was arrived at. This will be discussed in the next Chapter of this Book.

The final Conference to consider the Geneva Draft was held at Havana between November 21, 1947 and March 24, 1948. 57 nations attended this Conference. There were 602 amendments to the Geneva draft. After protracted discussion at various Sub-Committees a final draft was prepared. This was signed by the fifty-four Member-Nations.

At every stage of these negotiations, India took an active part and placed before the Committees and the final Conference the problems and points of view of the underdeveloped countries. India also took advantage of the intervals between the different sessions to consult some leading economists of the country and the representatives of Indian trade and industry on the issues dealt with.

278. The Charter is a highly technical document, consisting of 106 Articles and 16 Annexures, and is divided into the following nine Chapters:—

Chapter	I	Purpose and Objectives
Chapter	II	Employment and Activity
Chapter	III	Economic Development and Reconstruction
Chapter	IV	Commercial Policy
Chapter	V	Restrictive Business Practices
Chapter	VI	Inter-Governmental Commodity Agreements
Chapter	VII	International Trade Organisation
Chapter	VIII	Settlement of Differences
Chapter	IX	General Provisions

We do not consider it necessary to examine the Charter clause by clause. All that is needed for our purpose is an analysis of its main provisions in their bearing on the commercial policy of the country and the prospects of its economic development. In the following Section we shall, therefore, concentrate on the provisions of the Charter which deal with these problems, and conclude with a reference to the International Trade Organisation and incidental administrative matters.

SECTION B

Analysis of Charter Provisions

Objectives of the Charter

279. The objectives of the Charter are:—

(1) to increase income, demand, production, consumption and exchange of goods;

(2) to foster economic development particularly of those countries which are still in the early stages of industrial development and to encourage international investment;

(3) to promote equal access of all countries to markets, products and productive facilities;

(4) to reduce tariffs and other barriers to trade and to eliminate discriminatory trade treatment;

(5) to enable countries by increasing their opportunities for trade and economic development and to abstain from measures which would disrupt world trade;

(6) to facilitate through consultation and co-operation the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practices and commodity policy.

The purpose underlying these objectives is the establishment of an international code of commercial and investment principles designed to guide world trade away from restrictive and discriminatory trade practices, and to promote the economic development of backward and underdeveloped countries.

Commercial Policy

(a) Most Favoured Nation Treatment

280 First we shall deal with the provisions relating to Commercial Policy contained in Chapter IV. This Chapter consists of 31 Articles.

Article 16 sets out the principle of Most Favoured Nation Treatment. It provides that any advantage with respect to tariffs or other charges on imports or exports or with respect to international transfer of payments therefor or with respect to other trade regulation devices which are extended to the products originating in or destined for any other country must be extended "immediately and unconditionally" to the like product originating in or destined or all other Member-countries.

There are, however, three exceptions to this general principle. They are (1) the existing preferences in import tariffs between territories specifically referred to in Article 16(2) including Annexes A to J;

(2) new preferences ordinarily for a period of ten years that may be approved by the Organisation under Article 15 in order to carry out a member's programme of economic development or reconstruction; and

(3) advantages accorded under Article 44 to members of Customs Unions or Free Trade Areas, including *interim* preferential agreements, intended to lead to the formation of such Unions or Areas.

These are important exceptions. The first exception permits India to continue the existing preferences with the U. K. and Colonies, though the ultimate object is their gradual elimination, by negotiation, on a mutually advantageous basis. The second exception envisages that the internal market for a product in a country desiring to develop or reconstruct an industry may be found inadequate for its economic development. A provision is, therefore, made in Article 15 to provide temporarily for a larger market for the industry through new tariff preferences in other countries. This particular provision is qualified by so many conditions that it is doubtful if much use can be made of it. The third exception may be helpful to India if and when it enters into a Customs Union with any of the neighbouring countries.

(b) Tariff Bargaining

281. Article 17 requires Member countries to negotiate for the substantial reduction of the general level of tariffs and the elimination of preferences. These negotiations must be initiated on the request of other Member countries and should be conducted on a selective product-by-product basis. No Member need grant concessions in tariffs or preferences without receiving adequate concessions in return.

There are three exceptions to this general principle:—

First, Article 40 provides that a Member may reduce or withdraw a tariff concession granted to another Member on a particular product if import of that product increases to such an extent and under such conditions as to cause or threaten serious injury to domestic producers. The Member proposing such action must, however, give notice of its intention to do so to the International Trade Organisation as soon as practicable, and must consult other affected Members. If the latter are not satisfied and the concession is nevertheless suspended, they may, within 90 days, suspend an equivalent concession granted to the former.

Secondly, Article 13 provides for release from contractual obligations for the purposes of the economic development or re-construction of any particular Member country. A Member has the option either to enter into direct negotiations with all the other Members which have contractual rights and to make such modifications in the tariff concessions as are agreed to or to apply to the organisation to sponsor the negotiations. In case substantial agreement is reached, the Organisation may release the applicant Member from the tariff obligations concerned. If substantial agreement is not reached, the Organisation cannot grant the release.

Thirdly, under Article 25 of the General Agreement the contracting parties may waive the tariff obligations by a two-thirds majority vote, which must comprise more than half of the contracting parties.

(c) Internal Taxation and Regulation

282. Article 18 lays down that Internal Taxation and Internal regulations, such as those relating to the sale, purchase, transportation, distribution, or mixing of commodities should not be employed for protective purposes. In particular it provides that no higer taxes should be imposed on imports than on like domestic products.

Article 18 specifically prohibits the establishment of internal mixing regulations which require directly or indirectly that any specified amount or proportion of a given product must be supplied from domestic source. Regulations of this type, which were, however, in force on July 1, 1939 or on April 10, 1947 or on March 24, 1948 (at the option of each Member) are permitted to be continued but

may not be modified to the detriment of imports. Moreover, they are subject to negotiation in the same way as tariffs under Article 17. This particular provision will have a bearing on cases like the mixing of power alcohol with petrol, of foreign tobacco with Indian tobacco, and of foreign chemicals with indigenous products.

Article 19 is an exception to Article 18 and applies to Motion Picture Films. It permits Members to protect the Motion Picture industries by imposing screen quotas, by fixing the minimum proportion of screen time during which domestic pictures must be shown.

283. Article 20 states the general rule against prohibition of imports or exports and quotas in respect of them. **(d) Quantitative Restrictions** Sub-section (2) of that Article contains important exceptions permitting import quotas as an aid to agricultural stablisation programmes. The following important exceptions to the above article have been provided:

(a) Article 21 permits quotas when these are necessitated by the balance of payments difficulties. Article 22 provides rules for non-discriminatory administration of such quotas as are permitted under Article 21. Article 23 (including Annexure K) permits limited discrimination in the administration of quotas under Article 21.

(b) Article 13 establishes a procedure for obtaining exemptions from Article 20 for economic development or reconstruction of particular industries or branches of agriculture. In pursuance of a development or reconstruction programme, if a Member considers it desirable to impose a quota on a product on which it does not have an outstanding tariff concession, it is to submit its quota plan to the Organisation together with a justification thereof and a statement of the period for which it considers the quota necessary. Paragraph (7) (a) of Article 13 provides four circumstances in which the Organisation's approval of the quota is mandatory. The Organisation *must* approve of the imposition of the quota if it finds that it

(i) is designed to protect a particular industry, established between January 1, 1939 and the date of this Charter, which was protected during

that period of its development by abnormal conditions arising out of the war; or

(ii) is designed to promote the establishment or development of a particular industry for the processing of an indigenous primary commodity, when the external sales of such commodity have been materially reduced as a result of new or increased restrictions imposed abroad; or

(iii) is necessary, in view of the possibilities and resources of the applicant Member to promote the establishment or development of a particular industry for the processing of an indigenous primary commodity, or for the processing of a by-product of such industry, which would otherwise be wasted, in order to achieve a fuller and more economic use of the applicant Member's natural resources and manpower and, in the long run, to raise the standard of living within the territory of the applicant Member, and is unlikely to have a harmful effect, in the long run, on international trade; or

(iv) is unlikely to be more restrictive of international trade than any other practicable and reasonable measure permitted under this Charter, which could be imposed without undue difficulty, and is the one most suitable for the purpose having regard to the economics of the industry or branch of agriculture concerned and to the applicant Member's need for economic development or reconstruction.

After the intial period of the quota has expired, approval of its continuation, even if the circumstances described above are present, is no longer mandatory on the Organisation. The function of the Organisation in respect of these particular criteria is to determine whether they exist or not. It is evident that the first two criteria are determinable on the basis of statistical or other factual data. The last two conditions, however, clearly require the exercise of considerable judgment to ascertain whether the facts on which the criteria are based really exist or not.

(c) Article 14 is a transitional provision. It provides that any Member may maintain existing quotas for the development or reconstruction of particular industries provided that such quotas are not discriminatory and are not applicable to any product on

which the Member has an outstanding negotiated tariff commitment. The Member must give due notice to the Organisation, which has the authority to review the matter and if it considers continuance of the quota improper, to direct its modification or termination.

(d) Article 40 applies to all the obligations of Chapter IV of the Charter as was pointed out earlier. Under it, tariff concessions may be modified or withdrawn. Prohibition of quotas may also be withdrawn. However there must be a definite relationship of cause and effect between the increase in imports and the obligations assumed by a Member under the Charter. The Charter obligations need not be the sole cause of the increased imports but they must be at least a materially contributing factor.

All the commitments under Chapter IV are qualified by Article 45 which permits Member to take measures for the protection of public morals or public safety or for various other specified purposes.

(e) Subsidies Articles 25 to 28

284. There is no Charter provision forbidding the use of subsidies. By Article 25, however, any country maintaining subsidy of any kind which affects imports or exports must submit to the Organisation full information regarding the subsidy and must undertake upon request to discuss with the other Members concerned or with the Organisation the possibility of limiting the subsidisation. It does not go beyond that.

Article 26 contains a general prohibition of export subsidies whether direct or indirect. Primary commodities are exempt from this rule.

(f) State Trading Articles 29 to 32

285. The object of the provisions under State Trading is to ensure that Members which conduct their external trade wholly or purely through State Trading enterprises shall not suffer any special disability or obtain any special privileges under the Charter. It lays down the rule that state trading undertakings shall follow the general principles of non-discrimination and shall be guided by commercial considerations in their purchases and sales. The underlying idea is that state trading should not be used to circumvent the main objective of the Charter, *viz.*, the liberalisation of trade barriers and it has been left to the good faith of the Member countries which resort to state trading to use it in such a way that it does not nullify the

provisions in the other sections of the Charter. The Charter has not however imposed any limits on state trading. Any Member country can if it so desires extend this method to the whole range of foreign trade. It is difficult to foresee how a completely collectivist economy will fit into the pattern of free international markets and multilateral trade, but the provisions of the Charter relating to State trading are sufficiently elastic to permit of resort to this method when it is necessary to regulate foreign trade in the interests of the economic development of an underdeveloped country.

(g) Other Provisions

286. Chapter IV on commercial policy also contains provisions regarding freedom of transit, anti-dumping and countervailing duties, valuation for customs purposes, formalities connected with importation and exportation, marks of origin, publication and administration of trade regulations, information, statistics and trade terminology. We have already referred to some of these matters in a previous chapter on the problems of administrative protectionism.

Economic Development and Reconstruction

287. This is the most important Chapter from the point of view of industrially under-developed countries. This Chapter may be divided into two sections (i) obligations of a general nature, (ii) Government assistance to industries.

The first five Articles (8 to 12) in this Chapter deal with obligations of a general nature.

Article 8 recognises that all countries have a common interest in making the best use of the world's human and material resources. The industrial and general economic development (including the reconstruction of industries) of all countries and particularly of those in which resources are as yet undeveloped will create new employment, expand trade, increase the level of real income and so or.

In Article 9 Members are enjoined to develop and where necessary to reconstruct the industries and other economic resources and increase the level of output. Without transgressing any part of the code of the Charter, Article 10 provides for cooperation for economic development with ECOSO and other U.N. organisations. The I.T.O. is enjoined to study the natural resources and potentialities of

industrial and general economic development of the undeveloped countries and to assist them in the formulation of plans for such development.

Article 11 stipulates that no Member of the I.T.O. shall impose unreasonable and unjustifiable impediments which would prevent other members from obtaining the essentials which they may need for industrial and general economic development such as capital funds, materials, modern equipment, technology and technical and managerial skill.

Article 12 deals with the protection and fair treatment of international investments and emphasises the point that with appropriate safeguards international investments both public and private can be of great value in promoting economic development and consequent social progress. The Article clearly recognises that capital receiving countries (1) may impose safeguards to prevent interference by foreign investments in their internal affairs, (2) may determine whether and to what extent and upon what terms it will allow future foreign investments, (3) may prescribe and give effect on just terms to requirements as to ownership of the existing and future investments, and (4) may prescribe and give effect to other reasonable requirements with respect to existing and future investments.

The Article further provides that members may enter into bi-lateral or multi-lateral agreements relating to the opportunities and security for investment, which the Members are prepared to offer and any limitations which they are prepared to accept of the rights mentioned above.

All these clauses discussed above (Articles 8 to 12) are general in character and the obligations arising out of them can be scarcely regarded as requiring specific performance. Member countries assume a measure of moral obligation to take action designed to achieve certain objectives, but the Chapter imposes nothing in the nature of contractual obligations in respect of these Articles, on the part of subscribing countries. The function of the I.T.O. will be primarily promotional and advisory.

Governmental Assistance to Economic Development and Reconstruction

288. There is nothing in the Charter to debar a Member country from developing its industries under the shelter of protection, but it attempts to fit in some of the protective

measures needed for developmental purposes as closely as possible with the principles of multi-lateral trading laid down in Chapter IV. Article 13 in Chapter III in itself does not specify the protective measures that a Member country can adopt for developmental purposes. It mainly deals with them as exceptions to the principles of commercial policy enunciated in Chapter IV which may be justified for the development of industries. We have already discussed in the previous paragraph the principles of commercial policy and commitments of Member countries under it and its exceptions. For purposes of our analysis in this Chapter we shall divide state assistance under the following heads: Tariffs, Subsidies, Quantitative Restrictions and Mixing Regulations.

(1) *Tariffs.*—The principal tariff commitment of a Member is contained in Article 17, under which each Member is required, on request by any other Member and subject to the procedural arrangements laid down by the Organisation (*i.e.*, selective product-by-product basis, which is mutually advantageous), to negotiate for a substantial reduction of the general level of tariffs and the elimination of preferences. To this, as we have already pointed out, there are three exceptions. In the light of this Article and its exceptions, it may be stated that the tariff can be used without reference to the I.T.O. for protective purposes except where a Member country has agreed to a reduction or binding of duty. In cases where the duties are reduced or bound by international agreement, release may be obtained from the obligations through the procedure laid down in Article 13, paragraph 3. Further, for the purpose of economic development, preferences may be given to particular countries if it can be proved that these are essential for developmental purposes.

(2) *Subsidies.*—There is no objection to production subsidies.

(3) *Quantitative Restrictions.*—The purpose of the Charter would be defeated if quantitative restrictions were freely permitted. Hence Article 20 forbids quantitative restrictions, but important exceptions have been made to this general rule. We have already discussed them in detail. So far as economic development is concerned, the exceptions contained in Article 13, para. 7, are the most important. Under them industries started during the war and processing industries can be protected through quantitative restrictions. It may be also possible to use quantitative restrictions if it can be proved to the satisfaction of

other Member countries that this form of protection is economically advantageous for the development of any particular industry.

(4) *Mixing Regulations.*—They have been already discussed in paragraph 282 *ante.*

In brief, under the provisions of the Charter, tariffs can continue to be used for protective purposes, subsidies can be resorted to if Government revenues permit it, quantitative restrictions can be used in certain specific cases but mixing regulations not already in force are prohibited.

It should, however, be noted that *abnormal* imports of a commodity or its substitute, which threaten the establishment, development or reconstruction of a domestic industry or a branch of agriculture would justify the adoption of all these and such other measures as the situation may require. In such cases, however, a Member-country must give notice to the International Trade Organisation of the measures it proposes to take.

The International Trade Organization

289. The chief organ of the I.T.O. is the Conference which will normally meet once a year. The Conference will elect an Executive Board of 18 to carry on day to day organization. The final authority of the I.T.O. is vested in the Conference. In exceptional circumstances not elsewhere provided for the Conference has the right to waive any obligation imposed upon a Member by the Charter by a 2/3 majority vote. Out of the 18 seats on the Executive Board, 8 are reserved for Members of Customs Unions of chief economic importance. In assessing economic importance, the most important factor to be taken into account is the volume of a country's international trade. In the Executive Board, as in the Conference, each Member has one vote.

One article in this Chapter defines the relations of I.T.O. with the United Nations. It lays down that the I.T.O. should not take any action which might involve judgement on essentially political matters and that any subject which has been already brought before the United Nations in accordance with the provisions of the United Nations Charter shall be deemed to fall within the scope of the United Nations and not of the I.T.O. The purpose of this provision is to ensure that its activities are carried on without the intrusion of politics.

Settlement of Differences

290. Chapter VIII deals with the settlement of disputes and the interpretation of the Charter. Here provision is made for complaints by a Member Country if it considers that another Member is not fulfilling its obligations or if a situation arises which nullifies or impairs a benefit which the Member receives under the terms of the Charter. The complaining Member should first consult the other Member or Members and failing settlement, bring the matter before the I.T.O. first to the Executive Board with provision for appeal to the Conference.

If the Conference finds that any benefit accruing to a Member directly or indirectly under the provisions of the Charter is being nullified or impaired and all other methods provided for settlement of disputes have failed, it may release the complaining Member from the obligations of the Charter In particular, it will release such a Member from its obligation to grant concessions, to the extent necessary to compensate such Member for such nullification or impairment. There is also provision for obtaining advisory opinion from the International Court of Justice on legal questions. This reference should be confined only to points of law, and where decisions on economic questions are required (*e.g.* whether a Member's balance of payments position is such as to justify the use of quantitative restrictions or whether a Member should be permitted to use quantitative restrictions for economic developments, the findings of the organization are final).

General Provisions

291. This last Chapter contains miscellaneous provisions of a general nature. Article 99 deals with certain general exceptions to the provisions of the Charter in respect of matters relating to national emergencies arising out of international relations, the purchase or sale of atomic materials and the stock piling of strategic commodities, and includes a provision to the effect that nothing in the Charter shall override the Peace treaties and settlements resulting from the second World War. Other articles deal with amendments to the Charter, review of the Charter after five years, the territorial application of the Charter and the authenticity of its texts.

An important article sets out the rules governing trade relations with non-members of the I.T.O. It provides that Members may trade freely with non-Members but lays

down that a Member should not seek preferential treatment for itself in any new trade agreement with a non-Member nor should it give preferential treatment inconsistent with the Charter to the trade of a non-Member, if it thereby injures the other Members. No Member is obliged to give as favourable a treatment to the trade of non-Member as it gives to the trade of the other Members.

SECTION C

An Assessment of the Charter

292. In the preceding Sections, we have traced the history of the Charter and analysed its principal provisions. In this section, we shall examine some of the objections raised by its critics and try to define our attitude towards it in the light of our analysis.

293. In course of our investigations, we received some evidence on this subject from the industrial and mercantile community. Not all of it was based on adequate analysis of its provisions or reasoned appreciation of their implications. This was perhaps inevitable. For, neither the layout of the Charter nor the phraseology employed in it makes it easy reading, while the number of "exceptions" and "escape clauses" which it contains hardly lends itself to any simple analysis. Nevertheless, the evidence that we received from the principal Chambers of Commerce including the Federation of Indian Chambers of Commerce and Industry has helped us to formulate our views, and we are obliged to them for the pains that they took to elucidate their views on this difficult subject.

Objections to the Charter examined

294. The principal objections to the Charter urged before us are as follows:—

(i) It is not possible for countries in different stages of development and with different needs to conform to a uniform commercial code.

(ii) Under the Charter, approach to the I.T.O. is necessary under most of the clauses permitting of exceptional treatment to under-developed countries. This, it is contended, is to the disadvantage of countries like India.

(iii) Although the Charter is concerned with both foreign trade and internal development and employment, greater emphasis has been placed on the

former to the comparative neglect of the measures required for the development of under-developed countries;

(iv) Objection has been taken to supra-national regimentation of domestic economic policies which it is feared is certain to go against the interests of under-developed countries.

In the examination of these issues, it is necessary to distinguish between the problems of the short-period and the long-period. For almost all the operative provisions of the Charter contain "exceptions" which are broadly of three types:

(a) Exceptions, intended to meet the special problems of the short-period (*e.g.*, short-period disequilibria in the balance of payments);

(b) Exceptions, intended to provide for escape in emergencies or unforeseen developments in national or international situation (*e.g.* the clause relating to "serious injury to domestic producers" in Article 40 of the Charter); and

(c) Exceptions intended to meet the special problems of under-developed areas.

(i) The Rule of Equality

295. The contention that the Charter expects all members irrespective of their stage of development to live up to a uniform commercial code is substantially correct. It should, however, be the aim of practical policy in the under-developed countries to make the best use of the exceptions in favour of these countries which the Charter contains through well-designed domestic measures and concerted action in the international sphere. At the same time, we expect that the industrially advanced countries of the West will rise up to their responsibilities, and actively assist the under-developed countries to take the fullest advantage of the special provisions made in the Charter for their economic development.

(ii) Subservience to I.T.O.

296. As regards the second objection, a careful perusal of the analysis contained in Section B will show that the statement that India will have to approach the I.T.O. for almost all the steps that it might like to take to develop its industries is too general. We have already seen that protection through tariffs and subsidies is permitted under the Charter and the limitations to the use of these instruments are by no means serious. The use of quantitative restrictions and mixing regulations is admittedly much more restricted but

as has been pointed out in Section B the exceptions to Article 20 are such that, in the short period, the employment of quantitative restrictions is possible in a reasonable measure in all *bona fide* cases without prior reference to the I.T.O. As long as the conditions of the short period permit this use of quantitative restrictions, mixing regulations will occupy a comparatively minor place. In the long run, when the problems of the short period (*e.g.* balance of payment difficulties) are solved, recourse to quantitative restrictions will of course be no longer permitted as freely as now. Nevertheless, if it can be proved to the satisfaction of the International Trade Organisation that, in special cases, this method would be more economical than other permissible alternatives, its use would still be possible.

(iii) Emphasis on foreign trade

297. As for the objection that greater emphasis is placed in the Charter on foreign trade than on economic development and the domestic employment that follows from it, there is considerable force in it. Most of the commitments regarding the liberalization of trade barriers are definite and are part of the international obligations of members; the provisions regarding internal development and employment are by contrast, expressed in general terms and defined as obligations of national and not international policy.

In part this is due to the nature of these problems. While trade barriers can be dealt with by specific international measures, there is no such assurance about the steps that can be taken effectively on the international level to maintain full employment in the different countries. This limitation of direct international action in the field of employment emphasizes the importance and urgency of international action to promote and further the economic development of industrially backward countries on the lines of the schemes for the rehabilitation and development of Western Europe.

Supra national regimentation of Economic Policies

298. The last objection about alleged "supra-national regimentation of economic policies" can be satisfactorily answered only if a complete balance sheet setting out the *pros* and *cons* relating to India's ratification of the Charter is drawn up in measurable terms. Clearly this is impossible at present. A judgment on this issue must be necessarily based on *a priori* considerations. If India decides to ratify the Charter, the disadvantage will be the loss of absolute freedom to shape its commercial policy in the national interests. The advantages would be the tariff concessions and other forms of assistance in economic development that

India might obtain from membership of an international body. The following subsidiary considerations seem to indicate that the range of these benefits may be appreciably enlarged if India can make the fullest use of its position in the I.T.O.

(i) There appears to be no doubt that under-developed countries can make their case understood and influence the discussions at the I.T.O. This was amply demonstrated at the Havana Conference where India and the other industrially backward countries played an important role.

(ii) If India and the other industrially under-developed countries are able to play their part effectively in the International Trade Organization, they might succeed in preventing unduly narrow interpretation of the Charter clauses such as might restrict their economic development.

(iii) Lastly, the supply of foreign capital and technical ability, which India would require for its development plans is likely to be more readily available if it becomes a member of the I.T.O. The Charter does not, of course, impose any definite obligations on the economically advanced countries of the world to assist the industrially under-developed countries with capital, technical ability or know-how; but the scheme of the Charter is likely to facilitate the grant of such assistance to a country which accepts the Charter and joins the I.T.O.

If this hope is belied and the under-developed countries are not actively assisted in the development of their economy by the industrially advanced countries of the world, the entire purpose of the Charter will be defeated.

Recommendations

299. Having considered the objections to the Charter and reviewed its advantages and disadvantages to India, we are now in a position to define our attitude towards it.

In the short period as we have already seen, the provisions of the Charter do not impose any serious limitations on India's freedom to mould its commercial policy in the interests of its domestic economy. So from the purely short period point of view, there can be little objection to the provisions of the Charter.

In the long run the Charter undoubtedly imposes obligations on members, which necessarily detract from their right to initiate and pursue commercial policies suited to

their needs. To this extent, it must be admitted that the ratification of the Charter will involve some derogation from the "sovereign right" of India to frame its commercial policy. We have already examined the nature of the limitations on a country's freedom of action which in the long run the Charter will impose and have nothing further to add. The decisive consideration for the country is whether or not it should submit to these limitations for such advantages as may accrue to it by reason of its membership of the International Trade Organisation.

Mutual sacrifices and adjustments

300. All international commitments involve some direct or indirect encroachment on the freedom of a country to pursue its own policy, and participation in international organizations necessarily implies mutual sacrifices and adjustment of one another's views. The Charter is no exception to this general rule. We are glad to find that the need for this pragmatic approach to the problem is appreciated by a section of commercial opinion in this country. Thus the Indian Merchants Chamber, Bombay, observes as follows in their memorandum submitted to the Commission:—

> "The Havana Charter for promoting an International Trade Organisation for attaining higher standards of living and for fostering and assisting international economic development is part of an overall scheme of international economic collaboration. This scheme of economic collaboration has already taken concrete shape in certain directions, such as the establishment of an International Monetary Fund and the setting up of an International Bank for Reconstruction and Development. The process is being strengthened in other social and cultural features by collective activities sponsored by the United Nations in various directions. The proposal for an International Trade Organisation has certainly to be considered in the context of the overall schemes for international collaboration and it would be difficult to treat the Havana Charter and the proposal for the International Trade Organization in isolation for purposes of determining the attitude which India should adopt towards the same. My Committee feel that India will have necessarily to be guided by the above approach in dealing with this problem".

Those sentiments are endorsed by the Indian Chamber of Commerce, Calcutta in the following words:

> "In the circumstances, the Committee consider that it will not be prudent on the part of India to stand aside and reject the Charter and thus be left in

isolation to find the necessary wherewithal in the shape of foreign capital, technical aid and know-how to further her plans of economic development. Having regard to all these considerations, the Committee of the Chamber are of the view that India should adhere to the Havana Charter and participate in the proposed International Trade Organisation.

The question, however, arises as to whether India should ratify the Charter now or await ratification of other countries, particularly those who are under-developed like India.

The Committee are of opinion that Government of India should await the decisions of other countries".

The views reproduced above appear to us to place the issue in its proper perspective. In the words of William L. Clayton if the Charter is ratified by a majority of the signatory nations, as in all other international engagements "each member will surrender some of its freedom to take action that might prove harmful to others and thus each will gain the assurance that others will not take action harmful to it"

This reciprocal character of the Charter obligations and of the derogation from members' "sovereign rights" which they entail suggest some further considerations which it will be relevant to mention in this context:

First, the pattern of India's foreign trade has changed so markedly during the last few years that, in future, India will find itself more and more in the company of those countries which are no longer the exporters of primary commodities. We have already discussed in Chapter X the issues connected with the future pattern of India's foreign trade. This development renders India more vulnerable than it was in the past to changes in the conditions of world trade and commerce. India has therefore, an increasing interest in the maintenance of a system of international trade, which seeks to standardise the restrictions on the international movement of goods and services.

Secondly, an under- developed country like India will find it increasingly difficult if not impossible to maintain itself in isolation from the rest of the world. The choice before it will be participation either in a regional or a world system of trade and commerce.

Thirdly, the Charter in its present form will remain initially in force only for a period of five years and a member will be free to withdraw from the organisation after three years. Even if India ratified the Charter it will not be irrevocably bound by it and in the light of its experience of the working of the I.T.O. will be free to withdraw if it so desires.

301. In view of these general considerations and the consistent attitude which India has hitherto adopted towards measures of international economic co-operation, we recommend that India should ratify the Charter provided

(i) that the other countries of major economic importance, including the U.S.A. and U.K., have by then ratified it and

(ii) the economic conditions in the country at the time justify this course.

In making this recommendation to Government, we reiterate our hope that the provisions of the Charter concerning the economic development of the under-developed countries of the world will be interpreted liberally by the leading industrially advanced countries of the world. In the promotion of industrial and general economic development and higher standards of living in under-developed countries lies the real and lasting solution for the problem of creating conditions which will ensure the successful working of the Charter. And it is only by actively assisting in the execution of schemes of reconstruction and economic development in such countries that the industrially advanced countries can lay the sure foundations of an orderly system of international trade and investment. The measure of success in the working of the Charter will thus be the degree of development achieved by under-developed countries with the active help of advanced countries.*

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* Our Colleague Mr. B. M. Birla is unable to agree with the above recommendation for reasons recorded in his note which we append to this Chapter. As we have already discussed the issues raised by him in the foregoing paragraphs, we make no further comments.

Note by Mr. B. M. Birla on the Havana Charter

I do not agree with the recommendations made by the majority Report on the issue of the ratification of Havana Charter, as I believe that their approach is open to serious objection. The question is not whether U.K., U.S.A. and other countries ratify the Charter but whether any international commitments of the sort envisaged by the Charter are in our own interest. It appears that there is a fundamental conflict between the objectives of the Havana Charter and those which the Commission has in view. While the Commission is charged with the laying down of a proper and effective policy of protecting Indian industries against foreign competition, the Havana Charter creates an international organisation with the primary object of doing away with restrictions to trade and limiting the powers of member countries to impose measure suited to their own needs and requirements. Thus, industrial development is made subservient to the interests of free international trade, an ideal, which cannot legitimately find a place in the fiscal policy of an undeveloped country like ours.

The Charter aims at the expansion of world economy through the freedom of international trade. The emphasis is not on creating new employment by industrialisation but on preventing a fall in employment in countries already industrialised. The following quotation from the objectives of the Charter as appearing in Chapter I may be cited.

> ". . . . . to abstain from measures which would disrupt world commerce, reduce productive employment and retard economic progress".

In other words the Charter aims to safeguard against the export of unemployment to other countries arising as a result of greater industrialisation of the under-developed areas. The other essential objective of the Charter is to level down the barriers to trade irrespective of the level of industrial development or the level of employment in different countries. To quote again from the Charter it says in Chapter I

> "To promote on a reciprocal and mutually advantageous basis the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce".

This is the basis of the commercial policy laid down by the Charter which finds expression in Chapter IV of the document. Article 17 in Chapter IV requires the

members to carry out trade negotiations directed to the 'substantial reduction of the general level of tariffs.' As a principle this cannot be acceptable to any country new in the field of industrial development as it cannot possibly think of reducing its tariff level. As far as India is concerned, it is a well known fact that our general level of tariffs is still very low as compared to some of the industrialised countries. The question for us, therefore, is not of lowering the tariff levels but of substantially raising them, to suit our own economy and our budgetory requirements irrespective of any international consideration. A mention may also be made of Article 3 in Chapter II which again expresses the sentiments to which an undeveloped country cannot be a party. It says,

> "measures to sustain employment, production and demand shall be consistent with the other objectives and provisions of this Charter. Members shall seek to avoid measures which would have the effect of creating balance of payment difficulties for other countries".

One cannot visualize if such a condition can be fulfilled until the undeveloped countries are industrialised. During the period their industrialisation takes place, such a condition will undoubtedly hamper the progress.

The main objection to the Charter is in respect of Article 13 which provides for Governmental assistance to economic development and reconstruction. Although this article has been framed as an exception allowed to underdeveloped countries to enable them to develop their economies, yet it limits to a very great extent the freedom of member countries to apply protective measures suited to their own needs and requirements. The main principles underlying this article is expressed in the following terms:

> "The members recognise that special Governmental assistance may be required to promote the establishment, development or reconstruction of particular industries or branches of agriculture, and that in particular circumstances the grant of such assistance in the form of protective measures is justified. At the same time they recognise that an unwise use of such measures would impose undue burden on their own economies and unwarranted restrictions on international trade, and might increase unnecessarily the difficulties of adjustment for economies of other countries".

The entire approach to the question of economic development appears to be half-hearted and the main purpose it seems is, to provide for some sort of an international regulation and control over the fiscal policies of member countries. It is further clearly laid down in this Article that before any member country adopts any measures in the interests of its economic development, which may conflict with the provisions of Chapter IV in respect of quotas, export subsidies, mixing regulations, etc., it must obtain the sanction of the International Trade Organisation. All this ultimately boils down to the proposition that if we ratify the Charter we surrender our fiscal autonomy to a large extent to an international authority. All along, we had been denied freedom in fiscal matters because of the foreign rule. Now, when we are free to formulate our independent fiscal policy we are advised to ratify this Charter. My colleagues have also admitted in their Report that

> "....................the ratification of the Charter, will involve some derogation from the sovereign right of India to fashion her commercial policy."

I am unable to accept this compromise as I feel that there is no justification for it, when there is no substantial gain in return. I am sure, it would not be to our advantage.

The underdeveloped countries have all along provided the market for the advanced trading nations, who have built up their economies by innumerable devices of trade restrictions and an all out protection of their industries which apparently is now being denied by the Charter. The Charter is, thus, an attempt to freeze the existing pattern of industrialisation and to maintain the advantage in favour of such countries who have already developed their economies to a high pitch. After all, who took the initiative to formulate the Charter? It was not India or any other undeveloped country. Such a Charter was primarily needed by those industrialised countries who are anxious to secure a permanent market for their exports which could no doubt be made possible by lowering the barriers to international trade.

Apart from the series of restrictions the Charter imposes on the formulation of a free fiscal policy of a country and its subjugation to an international authority, certain clauses in the Charter strike at the very root of any protectionist policy that backward countries may have to adopt to

develop their economies. Quotas or quantitative restrictions and export subsidies are generally prohibited in the Charter. Further, under the Clause 18, it has been specifically laid down that no country is to maintain any quantitative restriction relating to the mixture, processing or use of products directly or indirectly which may require that an amount or proportion of a product subject to the regulation must be supplied from domestic sources. This means that if we want to produce certain parts of an article, we cannot lay down any regulation for the utilization of such products manufactured by Indian industries. The principles of fiscal policy which we have recommended do not debar us from adopting special measures to ensure a market for such products manufactured in India, but the Charter would not permit any such measures.

It has also been argued that there is nothing in the Charter which prevents any country to protect its industries by means of tariffs. There is even a feeling that as nothing has been said against the levy of tariffs for protective purposes the under-developed countries can make use of tariffs without let or hindrance. After all, a high protective tariff can be as great a restriction to free international trade as any quotas or other regulations, which have been specifically prohibited under the Havana Charter. How can we depend on the use of tariffs to take the place of other restrictive measures which the Charter wants to avoid? Article 13 of the Charter which I have quoted earlier sufficiently provides against a highly protectionist policy.

What is the positive side of the Charter? There are no obligations worth the name imposed on the I.T.O. to assist the development of backward countries. A lot is being made out of the so-called GATT agreements and it is pointed out that if India keeps away from the Charter she will be deprived of the trade concessions, which she may receive from the other member countries of the I.T.O. These concessions do not mean much to India at present. We are not depending on concessions for most of our existing exports which either consists of raw materials or such products which are still monopoly items in trade.

It seems that there is a serious misapprehension that foreign capital and technical skill may not be forthcoming to India if she keeps away from the I.T.O. It is difficult to understand how the Charter would facilitate the flow of foreign capital to this country. Foreign capital is not

governed by this or any other Charter. It would be attracted to any country where the return is adequate and it pays to invest. There is no other consideration. If proper conditions are created, foreign capital would come to India as it has already gone to the remotest corners of Arabia. As regards technical skill and capital goods, it is common knowledge that they are available even today in the international markets provided we pay the price. The price is reasonable and is determined on the same basis for every country. So many countries are taking advantage of the available supply.

Another argument advanced in favour of the ratification of the Havana Charter conveys that India cannot live in isolation and that the Charter may provide an opportunity to countries like India with less international influence in making their influence felt through the I.T.O. I think, a country does not become strong and influential by merely joining such organisations. Our influence in international matters will not be felt unless we are strong industrially and commercially and have the capacity to produce. It is only then, that we will be in a position to take an effective part in such an organisation and contribute our utmost to international well being and prosperity.

In view of the above considerations I oppose the ratification of the Charter as it is not in India's interest to do so.

CHAPTER XXII

GENERAL AGREEMENT ON TARIFFS AND TRADE

302. At the first session of the Preparatory Committee of the United Nations Conference on Trade and Employment held in London in 1946 it was decided that at the second session to be held at Geneva in 1947 Members of the Preparatory Committee should undertake negotiations directed to substantial reduction of tariffs and other barriers to trade on a mutually advantageous basis. Negotiations were accordingly opened at Geneva on April 10, 1947 and completed on October 30, 1947. Besides the Members of the Preparatory Committee, Pakistan, Syria, Burma, Ceylon and Southern Rhodesia also took part in the negotiations.

Basis and method of negotiations

303. Each country taking part in the tariff negotiations first compiled and submitted a list of products for which it wished to expand its export market and for which it asked for a reduction of tariffs from one or other of the participating countries. Similarly a schedule of "offers", *i.e.*, a list of goods on which a particular country was prepared to reduce its tariff duties was also compiled. These two schedules constituted the basic documents for each set of negotiations. They were conducted on a reciprocal and mutually advantageous basis. No country was expected to grant concessions without receiving equivalent concessions in return. Further, the needs of individual countries and their industries were taken into account and the negotiations were conducted on a selective, product-by-product principle thus ensuring flexibility. A similar procedure was also followed in negotiations on tariff preferences.

The concessions included—

(a) the complete elimination of certain duties and preferences,

(b) the reduction of duty and preference,

(c) the binding of duties at existing levels, and

(d) the binding of duty-free treatment.

Multi-lateral character of the negotiations

304. One hundred and twenty three sets of bi-lateral negotiations were completed amongst the countries which participated in the negotiations at Geneva. Taken as a

whole about two-thirds of the import trade of the countries concerned was covered by the tariff reductions or the binding of existing tariff rates. The completed negotiations, thus tried to fulfil one of the paramount objectives of the Havana Charter, *viz.*, the obligation of I.T.O. Members to negotiate with other Members for the substantial reduction of tariffs and elimination of preferences as provided in Article 17 of the Charter for the International Trade Organisation.

One important feature of the concessions received and granted was its multi-lateral application. A concession received or granted through negotiation with any other participating country was to be immediately extended to the other participating countries also. Thus the Most Favoured Nation Treatment became in effect multi-lateral. For example, if India granted to Australia a tariff reduction on a particular article, all other parties to the Agreement were entitled to a similar reduction of duty on the exports of that article to India.

A special advantage of the Geneva type of negotiations was that, being carried out simultaneously, the participating countries were able to take account not only of the direct concession offered but also of the benefits accruing indirectly as a result of parallel negotiations involving other countries.

The results of the negotiations for tariff reduction were embodied in the General Agreement on Tariffs and Trade with necessary provisions for their effective implementation.

The General Agreement on Tariffs and Trade (GATT)

305. The GATT is divided into three parts. It has 34 articles, 8 annexures and numerous interpretative notes. The schedules of tariff concessions are printed in three volumes containing 1300 pages.

Part I of the GATT deals with the principle of Most Favoured Nation Treatment and the schedules of concessions. Part II contains general commercial provisions which are similar to those of the Havana Charter. For the purpose of identification, the GATT articles are listed against similar Havana Charter articles in Appendix X. Part III deals with Territorial Application of GATT, Frontier Traffic, Customs Unions, Joint Action by the Contracting Parties, withholding and withdrawal of Concessions, Relation of GATT to I.T.O. Charter and Amendments etc.

The General Agreement on Tariffs and Trade provides a positive assurance of the fact that the commitment in the

Havana Charter to negotiate for a substantial reduction ot tariffs and elimination of preferences can be fulfilled. The General Agreement is in effect a full scale commercial policy code incorporating many of the commercial rules laid down in the more comprehensive Havana Charter. It is an agreement intended to give effect to the Charter rules on this subject in advance of its enforcement and to further one of the objects of the Charter, *viz.*, the reduction of tariffs and preferences all over the world.

The terms of the General Agreement are worked into the appropriate articles of the Havana Charter, which refer to GATT and to the contracting parties specifically. Article 17 of the Charter provides the necessary formal link between the two documents, and its different clauses attempt to adjust the provisions of the GATT with those of the Charter.

The present position

306. The Agreement came into effect on a provisional basis from 1st January 1948. The provisional application of the Agreement involves the application of Parts I and III of the Agreement to the full extent and of Part II to the extent not inconsistent with existing legislation. The provisional application can be withdrawn on 60 days' notice. The question of ratification does not arise till a contracting party is in a position to ratify the I.T.O. Charter. After the Agreement has been ratified by a contracting party it may withdraw from it on or after January 1951 after giving six months' notice.

Present position and Annecy negotiations

307. In pursuance of the decision taken by the contracting parties at its second session in Geneva in 1948 to invite the countries which showed interest in the Havana Charter but were not parties to the GATT to enter into tariff negotiations for the purpose of their accession to the General Agreement, negotiations were started at Annecy [France], between April 8, 1949 and August 27, 1949 with ten new countries—Denmark, Finland, Greece, Haiti, Italy, Sweden, Dominican Republic, Liberia, Nicaragua and Uruguay. At the end of these negotiations a protocol was drawn up to enable the accession to the General Agreement of these new countries and to implement the results of the tariff negotiations carried out with them. The protocol was signed by all the contracting parties by November 30, 1949 and has come into force with effect from the 20th May, 1950.

India and the GATT

308. India took part in the negotiations for tariff reductions both at Geneva and Annecy, and has provisionally given effect to the concessions negotiated at Geneva with

effect from the 9th July 1948. At both these negotiations India was guided by the following three principles:—

(1) Concessions should be such as are demonstrably in the interests of national economy or as are not injurious to the national economy,

(2) Concessions should not relate to products in respect of which a claim for protection is likely to be made during the next three years, and

(3) Concessions should not result in an excessive loss of revenue.

At Geneva, India conducted negotiations with the following countries: Australia, Benelux (Belgium, Netherlands and Luxemburg), Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, New Zealand, Norway, Syria-Lebanon and U.S.A. The nature of the trade between India and Cuba and between India and Syria-Lebanon was such that no basis for any agreement was found. There were no direct negotiations with the U.K., Ceylon and Burma. The special character of India's trade with Pakistan has been recognised under the Agreement in article XIV, paragraph 5. This provision gives a free hand to the two countries to adjust their customs tariff in relation to each other and to conclude agreements for the supply of essential commodities in the best interests of their mutual trade. At Annecy, negotiations were conducted with Denmark, Finland, Greece, Haiti, Italy and Sweden. As India had no significant trade with the other four new countries represented at the Annecy Conference, *viz.*, Dominican Republic, Liberia, Nicaragua and Uruguay, no negotiations were carried out with them, and therefore no direct concessions were either granted to or received from them.

Concessions secured and granted

309. The following are the principal items of the export trade on which concessions were secured at the Geneva negotiations:

Direct concessions.—Jute and Jute manufactures, Cotton manufactures, cashewnuts, mica, shellac, coir mats and mattings, sports goods, carpets, spices and condiments, essential oils and tea.

Indirect concessions.—Unmanufactured tobacco, coffee, cotton, non-essential oilseeds, castor oil, linseed oil, essential oils, fancy goods, sports requisites, turpentine, tea, raw wool, woollen carpets and rugs, woollen blankets, coir and coir manufactures, wax, gums and resins, kapok, granite

and marble, raw hides and skins, leather, canvas shoes with rubber soles, spices, curry paste and powder, other condiments, nuts, bristles, pig iron, tanning materials, mica, cotton yarn, cotton floor coverings, certain other varieties of cotton manufactures, jute yarn, jute carpets, certain other varieties of jute manufactures, drugs and manganese ore.

The nature and extent of these concessions and the countries in respect of which these concessions were obtained have been discussed in detail in a memorandum prepared by the Ministry of Commerce on the General Agreement on Tariffs and Trade in July 1948.* We do not consider it necessary to go into those details again but include a classified list of the concessions received by India, country-wise, in Appendix XI. At Annecy, India received concessions on tea, shellac, mica, cashew kernels, coir mats and mattings, jute cloth and bags and linseed oil. The details of these concessions are also shown country-wise in the above Appendix.

A classified list of the concessions granted by India both at Geneva and Annecy is given country-wise in Appendix XII.

The following two statements prepared in the office of the Economic Adviser to the Government of India give the total value of trade on which India has received concessions directly or indirectly and the total value of trade in commodities on which India has granted concessions directly or indirectly.

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*"Memorandum on the General Agreement on Tariffs and Trade"—July 1948.

TABLE 39

Summary Statement showing the Total Value of Trade in Commodities on which India has received concessions Directly or Indirectly.

Value of exports covered by concessions	EXPORTS (Rs. 000) 1938-39	1947-48	1948-49
(i) Direct	12,96,43·4	71,28,77	63,95,26
(ii) Indirect	15,65,75·2	39,04,25	24,72,64
Total of (i) and (ii) .	28,62,18·6	110,33,02	88,67,90
Total of export trade with signatory countries . . .	45,56,16·5**	179,66,662	152,47,57
Total exports of items affected by concession to all destinations .	141,30,65·6	3,53,37,32	3,68,40,28
Total exports of all articles to all countries	162,79,16·3	3,95,30,77	4,15,53,41

** Excluding U.K., Burma, S. Africa and S. Rhodesia.

TABLE 40

Summary Statement showing the Total Value of Trade in Commodities on which India has granted concessions Directly or Indirectly.

	IMPORTS (Rs. 000) 1938-39	1947-48	1948-49
(i) Direct	4,48,91·6	37,92,87	28,59,09
(ii) Indirect to signatory countries	3,67,41·1	27,72,44	29,61,07
Total of (i) & (ii) . .	8,16.32·7	65,65,31	58,70,16
Total imports from all sources of articles affected by concessions.	29,16,08·3	99,42,47	1,05,53,69
Total imports of all articles from signatory countries.* . .	70,01,86·8	2,81,30,28	3,16,79,48
Total imports of all articles from all sources	1,52,36,09·0	3,98,61,92	5,17,99,76

*Excluding Burma, S. Africa and S. Rhodesia.

A detailed study of the individual GATT items was also undertaken. Unfortunately no inference could be drawn from these figures. First, the available figures show the working of the Agreement only for a period of nine months. Secondly, the majority of the contracting parties has been experiencing balance of payments difficulties and their foreign trade has been, therefore, kept strictly under control. In the circumstances, the GATT concessions have not been of any appreciable significance in India's trade in these commodities.

310. It now remains to consider if India should continue to be a party to the General Agreement on Tariffs and Trade beyond December 1950. As we have already recommended India's participation in the I.T.O. under certain conditions, a decision on the present issue automatically follows. India should continue to adhere to the GATT. It will be to its interests to do so even if the ratification of the Charter for the I.T.O. is delayed. In Chapter XXI we have already explained the reasons for which we consider it desirable for India to ratify the Charter; those reasons apply with equal force to our continued participation in the GATT. It is likely that all the important countries of the world except the USSR, which are already parties to the GATT, will continue to participate in it till they have taken a final decision on the Charter. It will not be to India's benefit, therefore, at this stage to take a different line till the future of the International Trade Organisation is definitely known. **Recommendation**

We received some evidence on the principles followed for the selection of commodities for purposes of tariff negotiation. The existing principles appear to be sound and we suggest that in all future negotiations the following principles should be borne in mind:—

First, in regard to the tariff concessions to be received from other countries, India should concentrate on—

(a) Commodities which meet with competition from similar commodities from other countries in the world market,

(b) Commodities which may meet with competition from possible substitutes from other countries in the world market,

(c) Manufactured commodities rather than raw material.

Secondly, in the matter of granting tariff concessions, India should concentrate on:

(a) Capital goods

(b) Other machinery and equipment

(c) Essential raw materials.

We have also three further suggestions to make:

First, the special export requirements of the unorganized cottage and small-scale industries, which depend on the foreign market to a large extent should be borne in mind when India enters into trade negotiations with foreign countries. It should be the particular aim of India's representatives to secure for them the maximum of tariff concessions in the foreign market and to safeguard their position aginst competitive imports from abroad.

Secondly, a close watch should be kept on the course of trade in the GATT items, and half-yearly trade returns should be published within six weeks of every half-yearly period;

Thirdly, before any fresh negotiations are started, the representatives of trade, industry and other interests concerned should be consulted as regards the nature of the concessions that India may claim from the other countries and of the reciprocal concessions that the other countries, in their turn may demand of it.

CHAPTER XXIII

THE INDO-BRITISH TRADE AGREEMENT, 1939

SECTION A

Historical Background

311. India's participation in a scheme of "Imperial" Preference was mooted by the U.K. Government as early as 1903. The Government of India then examined the nature of India's foreign trade and came to the conclusion that it would not be in the interests of the country to be a party to "Imperial" preference. **Background**

In the early twenties the idea again came to the forefront. In 1922 the Indian Fiscal Commission examined the case for "Imperial" Preference and came to the conclusion that the adoption of a general scheme of preference would mean an additional burden on the consumer only "for the furtherance of interests which are not primarily Indian". The Commission, however, recommended selective and discriminating preference after examination by the Tariff Board. According to it, the governing principles in the application of such a policy were to be (1) the prior approval of the Legislature, (2) the maintenance of the requisite degree of protection to the Indian industry, and (3) the avoidance of appreciable economic loss to India. Between 1923 and 1932 the Government granted preference to British goods only in two cases. These were Iron and Steel and Cotton textiles which were protected during this period.

312. With the onset of the economic depression in 1929, England was forced to make radical changes in its fiscal policy. In September 1931 the pound sterling was devalued and immediately afterwards duties were levied on almost all imported articles. Goods from the Dominions and India were exempted from the duties till the 15th November 1932. In the meantime, an Imperial Economic Conference was called at Ottawa to review the developments in world trade and commerce which followed the depression of 1929-30 and the devaluation of the pound sterling and to evolve plans for the revival of Commonwealth trade India participated in this Conference, for circumstances became radically different from those of 1903. With the

change introduced in its tariff policy by the Import Duties Act of 1932 the United Kingdom was in a position, as never before, to grant preference in return for those granted to it. Secondly India's dependence on the United Kingdom market was clearly revealed during 1929-32, the period during which India's total volume of exports began to decline. In 1929-30 the United Kingdom's share of India's exports was 21 per cent. which increased to 28 per cent. in 1932-33. Thirdly, with the almost simultaneous devaluation of currencies in the sterling area-countries, currency and exchange rates in the sterling area were likely to be more stable than in other countries where policies were changing rapidly. These considerations induced the Indian Delegation to enter into an elaborate scheme of reciprocal preferences with the United Kingdom Government. The Agreement which was to remain in force for three years was signed on the 20th August 1932 and was ratified by the Indian Legislative Assembly in November 1932. It was supplemented by the Iron and Steel Agreement signed in September 1933. The Indo-British Trade Agreement of 1935 (the Supplementary Agreement) which followed the Bombay-Lancashire Agreement of 1933, and was designed to supplement the Ottawa Agreement of 1933, and to hold good only during its currency, however, met with a different fate. This Agreement was intended to set out the general principles which the Government of India wished to follow as regards the treatment of the United Kingdom goods competing with the products of a protected Indian industry and was necessitated by the fact that the Ottawa Agreement had left out of consideration commodities which enjoyed protection in India. This Supplementary Agreement was, however, rejected by the Indian Legislative Assembly and automatically lapsed when the notice of termination of the Ottawa Agreement was given in 1936.

Indo-British Trade Agreement

313. The Ottawa Agreement did not find much favour in the country. A review of its working was undertaken in 1936 and shortly afterwards the Legislature voted for its termination. Notice of denunciation of the Agreement was given on the 13th May 1936, but in the talks that immediately followed between the Government of India and the United Kingdom Government, it was agreed that the preferences granted under the Agreement would continue as a purely interim measure till a new Agreement had been reached between the two countries. After protracted negotiations an Indo-British Trade Agreement was signed on the 20th March 1939, but was rejected by the Legislative

Assembly. The Bill, was however, certified by the Governor-General and on the 18th April was passed, as certified, by the Council of State. The Agreement was to last till the 1st April 1942.

The main features of the Agreement may be summarised as follows:—

(i) The Agreement preserved all the concessions and privileges which India enjoyed in the United Kingdom market under the Ottawa Agreement with two exceptions, namely, the preference on wheat, which was abolished and that on rice, which was reduced to one-third. On the other hand, preferences granted by India to the United Kingdom were reduced from 106 items to 20 items, of which 19 were old items.

(ii) India was assured of continued free entry for all Indian products which were admitted free of duty at the time of the Agreement.

In addition, India was assured of free entry for lac, raw jute, myrobalam, mica slabs and splittings, and hemp when imported from any sources whatever. The United Kingdom also agreed to maintain the existing preference on tobacco until the 19th August 1942, and undertook to co-operate in any measures that might be practicable to facilitate the marketing of Indian tobacco in the United Kingdom.

(iii) The United Kingdom agreed to grant to India any tariff preferences granted to any of the Dominions of Newfoundland, Southern Rhodesia or Burma and reciprocally the Government of India undertook to grant to the United Kingdom any tariff preferences granted to any of these countries except Burma.

(iv) The Government of the non-self-governing Colonies agreed to accord to India preferences granted by them to other parts of the British Empire with certain exceptions, and the Government of India in their turn undertook to grant to the non-self-governing colonies preferences on certain commodities at the rates shown in Schedules V and VI of the Indo-British Trade Agreement (*vide* Appendix XIII (A)].

(v) Provision was made for separate trade negotiations with Ceylon pending which the preferences then given by Ceylon to India were continued and the Government of India agreed to give Ceylon the same preferences as in the case of the other non-self-governing colonies.

(vi) The United Kingdom granted—

(a) preferences at a rate of 10 per cent. *ad valorem* on the following articles, namely, bones, castor-seed, coir yarn, cotton yarn-unbleached, raw goat-skins, gram, groundnuts, teak and other hard woods, undressed leather, linseed, magnesite, oilseed cake and meal, paraffin wax, sandalwood oil, soyabeans and certain specified spices;

(b) preferences at a rate of 15 per cent. *ad valorem* on certain vegetable oils, granite setts and kerbs, dressed leather, jute cordage and ropes;

(c) preference at a rate of 20 per cent. *ad valorem* on coir mats and mattings, certain varieties of cotton manufactures and jute manufactures; and

(d) preferences at specific rates on magnesium chloride, coffee, tea, rice and carpets.

Concessions granted by India

(vii) In return for the above concessions, India granted to the United Kingdom preferences on twenty tariff items, namely, drugs and medicines, containing spirit, certain varieties of chemicals, drugs and medicines, cement, paints, colours and painters' materials, fents, woollen carpets, rugs and other woollen manufactures, iron or steel hoops and strips, iron or steel barbed or stranded wire and wire rope, copper wrought and certain manufactures, domestic refrigerators, sewing and knitting machines and parts, certain varieties of electrical and other instruments, apparatus and appliances, motor vehicles and parts and cycles.

(viii) The drawback orders which were said to have nullified the preference on oilseeds were modified so as to withdraw the concession from goods other than linseed oil.

(ix) Finally, under a special article known as the Cotton Article, the United Kingdom was granted an immediate concession by way of a reduction in

the duties on cotton piece-goods but the continuance of that concession was made dependent, on the one hand on the imports of piecegoods from the United Kingdom keeping within certain well defined limits and, on the other, on the United Kingdom purchasing from India certain agreed quantities of raw cotton. The following basic rates were fixed for Cotton piece-goods from the United Kingdom; 17½ per cent. *ad valorem* for printed goods; 15 per cent. *ad valorem* or 2 annas and 7½ pies per sq. yard, whichever is higher, for grey goods; and 15 per cent. *ad valorem* for other cotton piece-goods; it was proved that if during any "cotton year" the imports of Indian raw cotton into the United Kingdom fell below a specified minimum quantity or exceeded a specified maximum quantity and, alternatively, if imports of the United Kingdom cotton piecegoods in any "cotton piecegoods year" exceeded a specified minimum yardage, the basic rates stated above might, in the subsequent year, be increased or decreased within a certain limit.

314. The World War broke out within five months of this Agreement coming into force. Since then controls, rather than tariffs, have influenced the direction of India's trade. This makes it difficult to make a quantitative assessment of the effects of the Agreement. In this Chapter only a brief attempt will be made to discuss the nature of the concessions received and granted. In this connection another point to be noted is the changes that have been brought about in the preferential rates by the General Agreement on Tariffs and Trade. A statement showing the concessions received and granted and the changes effected as a result of the negotiations held at Geneva and Annecy is given in Appendix XIII.

SECTION B

Analysis of the Indo-British Trade Agreement

Concessions received by India

315. The nature of the concessions which India has received in the United Kingdom market has been already set out in paragraph 310 and the tables that follow. We shall now examine their importance in relation to India's total exports and in the United Kingdom market. As com-

pared with 1938-39, India's dependence on the United Kingdom market has dwindled. The following table gives a comparison between the values of preferred and non-preferred exports (in 1938-39 and 1948-49) to the United Kingdom and to all countries including the United Kingdom.

TABLE 41

Values of Preferred and Non-Preferred Exports in 1938-39 and 1948-49

Value in lakhs of Rupees

	1938-39	1948-49
I. (a) Exports (preferred and non-preferred) to all countries	16279	41553
of which		
(b) Exports (preferred and non-preferred) to United Kingdom	5551	9767
(c) as per cent of (a)	34·1	23·1
II. (a) Exports of preferred commodities to all countries	9467	30771
of which		
Exports of preferred commodities to U.K.	4138	6335
(b) as per cent of (a)	43·7	20·6
III. (a) Exports of non-preferred commodities to all countries	6812	10782
of which		
Exports of non-preferred commodities to U.K.	1413	3432
(b) as per cent of (a)	20·7	31·8

It will be seen from the above statement that the share of India's total exports, both preferred and non-preferred, to the United Kingdom has declined from 34·1% in 1938-39 to 23·5% in 1948-49. The decline in the share of exports of preferred articles to the United Kingdom market was still greater—from 43·7% to 20·6% during the same period. In other words, at present India does not depend as much as it did in pre-war years on the United Kingdom market either for its exports generally or for the preferred items on the export list. The significance of this change is further enhanced by the fact that preferred articles now constitute 74% of India's total exports as against 58·2% in 1938-39. From this statistical analysis the conclusion emerges that the importance of preference in the system of India's export trade has considerably declined.

316. Our analysis of the concessions received by India suggests a classification under the following heads:—

(a) Concessions which are not of any great value to India ;

(b) concessions which have been given to India under Most-Favoured-Nation-(Commonwealth) Treatment ; and

(c) concessions which are of definite advantage to India.

In the first group fall magnesite, oil cakes, barley, rice not in the husk, gram, bones and jute manufactures. Of these jute manufactures form the most important item. In 1938-39, 10·4% of India's exports of jute manufactures went to the United Kingdom in 1948-49 the proportion was 12·2%. It may also be pointed out that in 1948-49, jute manufactures constituted 28·2% of India's exports of all preferred articles. India has, however, a virtual monopoly of jute manufactures, and an export duty has been levied on them. It is doubtful if preferential tariffs have had any appreciable part in stimulating the export of this commodity to the United Kingdom market. As regards the other items in this group, India has no exportable surplus in food articles and it is hardly likely that export of bones and magnesites can be encouraged.

Items under group (b) are tea, spices, groundnuts, coir yarn, goat skins—raw, paraffin wax and teak and other hard woods. Tea is the most important item in this group. In 1948-49 it formed 65·1% of India's total exports of all

preferred articles as compared with 49·2% in 1938-39. But since the outbreak of the war the bulk purchase arrangement made by the U.K. Government has taken away the value of the tariff concessions. As long as this continues tariff concession will be of no use in stimulating its export in the United Kingdom market. Among the other items, paraffin wax, teak and other hard woods and spices will face strong competition from the other Commonwealth countries which also enjoy preferential tariff in the United Kingdom market. India has therefore, no differential advantage in respect of these commodities. As regards goat skins—raw, coir yarn and groundnut, India has been the principal supplier to the United Kingdom market. In 1938-39 more than 80% of the imports of coir yarn and groundnuts into the United Kingdom was from India and India's share in the United Kingdom market of raw goat skins was about 61%. Similar figures for recent years are not available. At present 31·6% of India's exports of goat skins, 20% of its exports of coir yarn and 16% of its exports of groundnut go to the United Kingdom. In other words, India has a world market for these articles and concessions in the United Kingdom market are only of secondary importance. The concessions for the items in this group are necessary only if similar concessions are granted to other Commonwealth countries.

This brings us to the last group which consists of cotton yarn and other cotton manufactures, tanned hides and skins, tobacco-manufactured and un-manufactured, granite setts and kerbs, vegetable oils. linseed, woollen carpets, sandalwood oil and magnesium chloride. The United Kingdom is India's principal market for all articles in this group except cotton yarn, cotton manufactures and manufactured tobacco. The main competition in these articles in the United Kingdom market is from countries outside the Commonwealth. The preferences are therefore, useful in assisting our export trade in these articles to the United Kingdom especially in view of the growing importance of these articles in the country's export trade.

Besides these three groups, there are certain raw materials for which free entry is allowed. Some of the important items in this group are shellac, sticklac and other varieties of lac, raw jute, mica slabs, mica splittings, and hemp. In so far as some of these articles are liable to the actual or potential competition of synthetic products the free market in the United Kingdom will be a source of

considerable strength to India. This is particularly so in the case of shellac and mica.

317. The concessions which India granted to the United Kingdom and Commonwealth countries covered only twenty items as against one hundred and six in the Ottawa Trade Agreement. On the basis of import values, only 10% of imports in this country was given preferential treatment as against 25% in the Ottawa Agreement. The preferences were restricted to a few highly competitive imports; commodities in respect of which the United Kingdom was exceptionally strong or weak were omitted from their scope. The following statements give the total value of imports of each preferred article and the value of imports from the United Kingdom in 1938-39 and 1948-49.

Concessions granted by India

TABLE 42

Showing the value of total Imports of different preferred Articles and the value of Imports of those from the United Kingdom in 1938-39 and 1948-49

1	2		3		4		5	
Commodities	Imports from all sources *Rs. lakhs*		Imports from the U.K. *Rs. lakhs*		Percentage of (3) to total imports of preferred articles from U.K.		Preferred Imports from U.K. as per cent of Total preferred imports	
	1938-39	1948-49	1938-39	1948-49	1938-39	1948-49	1938-39	1948-49
1. Chemicals, Drugs and Medicines All sorts—NOS	387	2,066	180	972	27	25	47	47
2. Instruments, apparatus and appliances other than electrical all sorts—NOS	82	339	38	202	6	5	47	60
3. Cycles and parts of cycles and accessories thereof excluding rubber tyres & tubes	96	389	76	348	11	9	80	90
4. Sewing and knitting machines and parts thereof	57	195	33	140	5	4	57	72
5. Electrical instruments Apparatus & appliances	81	376	51	302	7	8	62	79
6. Wireless reception instruments & apparatus and component parts thereof	41	137	17	95	3	3	41	70
7. Parts of Mechanically propelled vehicles—NOS, Motor vehicles and chassis of motor omni-buses, motor vans and motor lorries	207	3,153	56	948	8	25	27	30
8. Motor cars, including taxi cabs, motor cycles including motor scooters	221	814	104	528	15	14	47	65
9. Domestic Refrigerators	7	33	0·2	20	..	0·5	2	61
10. Copper wrought and manufactures of copper—all sorts—NOS	40	88	12	78	2	2	31	88
11. Iron and steel-hoops and strips	49	89	21	31	3·0	0·8	42	35
12. Woollen carpets-floor rugs etc.	29	49	3	6	0·4	0·2	10	13
13. Cement—NOS.	4	11	3	2	0·5	0·1	80	21
14. Barbed or stranded wire and wire rope (Iron & Steel).	21	41	19	34	3	0·9	92	82
15. Fents being *bonafide* remnants and piece-goods of other fabrics	35	50	10	13	1	0·3	28	82
16. Paints, colours, and Painters' materials—all sorts—NOS—and Paints colours and Painters' materials as specified	68	225	42	142	6	4	62	62
17. Drugs and Medicines containing spirit	36	42	16	NA	2·3	0·0	43	NA
Total imports from all sources	1,463	8,095	679	3,857	100	100	46	48

NOTE.—NOS=Not otherwise specified.

NA=Not available.

It will be seen from the above statements that Chemicals, Drugs and Medicines formed the most important items on which concessions have been granted, constituting about 27% of the total preferred imports from the United Kingdom. The next item in order of importance was motor cars which constituted about 16% of the total value of preferred imports from the United Kingdom. Parts of mechanically propelled vehicles came close to motor cars. Instruments, apparatus, appliances and electrical instruments formed another 11 per cent. of the total preferred imports from the United Kingdom. We refrain from commenting on the figures for 1948-49 as the imports during this period were greatly influenced by the import control measures in force, but would point out that as compared with 1938-39, while the share of the United Kingdom in many individual items of imports has increased, the aggregate share in the total import of preferred articles has remained more or less constant—presumably because the individual items in which the United Kingdom registered substantial increases were comparatively small in relation to the total value of preferred imports.

The margin of preference allowed was generally 10 per cent. except in two cases. In the case of motor vehicles it was 7½ per cent. Drugs and medicines containing spirit [tariff item 22(5) (b)] were given a preferential rate of Rs. 4 per imperial gallon. As has been already mentioned, these preferential rates have been modified as a result of the negotiations for tariff reduction held at Geneva and Annecy.

318. The quantum of preference has been provided either by a reduction in the standard rate or by an increase in it or by a combination of the two methods. Adjustments in the preferential rates were made after the Ottawa Agreement. After the Indo-British Trade Agreement of 1939 no fresh adjustment was made as the margin of preference continued to be the same as before.* In practice the choice of method for the fixation of the quantum of preference depended on a variety of factors the more important of

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*In 1932 the standard rate on motor cars which had so far been 37½% was lowered to 30% *ad valorem* on British imports *i.e.*, the preferential margin was given by a complete reduction in duty. In the case of paints and painters' materials, toilet soap, etc. for which the standard rates of duty had been 25% *ad valorem* duty was raised to 35% *ad valorem* on non-British goods, thus the preference was given by an increase in duty. For certain other classes of goods where the standard rate of duty had been 25% *ad valorem* duty was raised to 30% on non-British goods and lowered to 20% on British goods.

which were:—

(a) the character of the preferred import including the all-important fact whether it was competitive to domestic industry or not;

(b) the percentage of the domestic market which the preferred import supplied;

(c) the elasticity of the preferred sources of supply.

We shall turn to a consideration of this problem in the following section but before we do so, we should like to explain the concessions granted to cotton textiles and steel.

319. One of the controversial clauses in the Agreement was Article 10 known as the "Cotton Article", the main provisions of which have been already summarised in paragraph 310. At the outbreak of the war, the import of cotton piecegoods from the United Kingdom fell below the minimum figure of 425 million yards, whereupon according to the terms of the Agreement, the Government of India reduced the duties on them by $2\frac{1}{2}$ per cent. in 1940. Shortly afterwards, the in-take of Indian cotton into the United Kingdom also fell below the minimum levels laid down in the Agreement; but no further alteration in the preferential duty on cotton piecegoods was made. Since then, the course of World War II and changes in the structure of production in the textile industry and the pattern of trade between India and the United Kingdom have removed the basis of the old Cotton Article.

Similarly in the case of steel, the old premises on which the grant of preferences to imports from the United Kingdom was based have disappeared. The preference now enjoyed by the imports from the United Kingdom was originally part of the scheme of protection formulated by the Tariff Board in 1934 for the benefit of the Indian Steel Industry. The Industry was deprotected in 1947, when the protective duties were converted into revenue duties but the preference on the imports from the United Kingdom was left untouched. Unlike the Cotton Article, this preferential duty does not form part of the Indo-British Trade Agreement. It should, therefore, be possible for the Government of India to deal with this duty on a different footing from that of the tariff preference on Cotton Textiles. We were assured, in course of our enquiry that Indian Steel could now stand on its own against foreign steel, whether from British or non-British sources. If so, a decision on this point will depend purely on revenue

considerations and on the incidence of the present revenue import duty on steel on its price to the domestic consumer. We understand that both these cases—preferential duties on cotton textiles and steel—are now under the consideration of the Government of India. As regards the latter, we suggest that the duties on steel, both standard and preferential, may be usefully discussed in course of the next round of international tariff negotiations likely to take place in the near future. As regards the preference on cotton textiles, since this forms part of the Indo-British Trade Agreement, it will be obviously desirable to take it up as part of the negotiations on this subject to be undertaken at a later date which we recommend elsewhere in this Chapter.

SECTION C

An Assessment of the existing preferential system.

320. In the previous section we have already discussed the effects of the preferential rates of duty on the import and export of preferred articles. In this section we propose to examine the effects of the scheme of preferences as a whole on the internal economy of the country. It will suffice to examine the issue from the following points of view:—

(i) the probable "loss of revenue" resulting from the grant of preferences on imports ;

(ii) the effect of preferences on protection to domestic industries ; and

(iii) the burden on the consumer.

(i) Loss of revenue

321. It is difficult to arrive at a quantitative estimate of the probable loss of revenue that the existing preferential duties might entail. In the first place, the Indo-British Trade Agreement of 1938-39 was in force for only five months before World War II broke out, and ever since the end of the war imports and exports of goods have been continuously under licensing and control. This makes it impossible to measure the changes in the yield of customs revenue which can be attributed to the preferential duties. Secondly, the changes in the scope and range of preferential duties following the General Agreement on Tariffs and Trade have introduced another complication. A third source of confusion arises from the difficulty inherent in any analysis of preferred duties—of considering "the loss of revenue" apart from "the burden on the consumer".

The argument on this point has been briefly set out in paragraph 229 of the Report of the Indian Fiscal Commission, 1921-22* and needs no further elaboration in this context, particularly as some aspects of its will be discussed in a later paragraph of this section.

It is impossible to hazard any estimate of the probable "loss of revenue" from the preferential tariffs now in force. Under the terms of the Indo-British Trade Agreement of 1939, the number of articles on which concessions were granted was reduced from 106 to 20. As we have already seen, the General Agreement on Tariffs and Trade has further reduced the scope of these preferences. It is the considered view of the Ministry of Finance that "the revenue implications of the preferential arrangements as they exist today are not of much importance".

(ii) The effect of preferences or protection to domestic industries

322. In expounding the economic principles underlying the grant of preference and the economic limitations of preferences in India, the Indian Fiscal Commission of 1921-22 observed categorically that "under no circumstances should preference be allowed to diminish the protection which it may be decided that an Indian industry requires". This principle was faithfully followed in the case of the Ottawa Agreement of 1932. Articles which were granted protection were kept out of its scope and preferences in respect of them where proposed were separately negotiated after the Tariff Board had examined the relevant cases.

In the Indo-British Trade Agreement of 1938-39 also, protected articles were kept out of its scope and the so-called "Cotton Article" (Article 10 of the Agreement) was incorporated into it only after special negotiation. As long as this principle is followed, there can be little risk of preference reducing the quantum of protection required by an indigenous industry.

(iii) Additional Burden on the consumer

323. The question may, however, be asked whether the need to combine an agreed rate of preference with adequate protection may not impose an unnecessary burden on the

*If the preferential rate is a reduction from the general rate, it is clear that the country granting the preferential rate is sacrificing revenue. As we have indicated above, preferential rates are not however always a reduction from the standard rate. On the country preference often takes the form of raising the duties against the non-favoured countries, instead of lowering them for the benefit of the favoured countries. In such cases it may be argued that the State sacrifices no revenue. Indeed it may receive in view of the higher rates imposed on the non-favoured countries a slightly higher revenue. But for the true economic effect we have to look below the surface.

c.f. Para. 229, p. 108, Report of the Indian Fiscal Commission 1921-22.

consumer. It is difficult to answer this question in the abstract, but broadly speaking two types of cases may arise.

First, the landed cost from the preferred source of supply may be the lowest import price on the basis of which the quantum of protection to an indigenous industry is fixed. In that case, no additional burden will be imposed on the domestic industry merely because of preference. Indeed in such a case preference must take the form of an addition to the protective tariff equivalent to the agreed margin of preference. It will be reasonable to assume that in the circumstances of this case, the preferred source will also be an elastic source of supply. On this assumption the burden of protection resulting from the grant of protection in this case will be no higher than that imposed by the protective tariff.

Secondly, the "landed cost" from the preferred source of supply may be higher than that from the other sources. In that case, the quantum of protection will be based on the lower costs from non-preferred sources. The actual rate of protection may, in view of the higher cost from the preferred source of supply, automatically ensure the agreed rate of preference to the preferred source of supply but this may not be always so. If the rate of protection does not secure for the preferred source the agreed margin of preference, the rate of protection (based on the difference between the lowest "landed cost" and the fair selling price of the domestic industry) may have to be increased in order to enable the preferred source to secure the agreed quantum of preference. The following example will illustrate the above argument:

Suppose there are two foreign sources of supply—Australia (non-preferred) and the United Kingdom (preferred) and that the margin of stipulated preference is 6 per cent.; further that the "landed cost" of a product as compared with the fair selling price of the protected domestic industry, measured in terms of a common unit, is as follows:

	Australia (Landed cost)	*U. K.* (Landed cost)	*India* (Fair selling price)
Example I	100	80	120
Example II	100	110	120
Example III	100	102	120

The principle of equalization of the lowest "landed cost" of imports with the "fair selling price" of the domestic industry would result in varying rates of protection. In Example I, the rate of protection would be 50·1 per cent. (which will also be a preferred rate), while the standard rate would be 56 per cent. There is no ground for preference in this case. On the assumption made in the previous paragraph, this will impose no additional burden on the consumer. In Example II, the rate of protection will be 20 per cent. and no additional burden is likely to be imposed by the necessity of granting a 6 per cent. preference to the United Kingdom producer. In Example III, the rate of protection will remain at 20 per cent. but the necessity of granting a 6 per cent. preference to the United Kingdom producer will require the enhancement of the protective tariff by at least another 4 per cent., *i.e.*, from 20 per cent. to 24 per cent. For, otherwise, the fair selling price of the domestic industry will not be equated with the lowest landed price *plus* import duty which in this case happens to be the United Kingdom price.

To generalise, preference will impose a burden on the consumer in addition to the burden of protection if the difference between the landed costs of the preferred and non-preferred sources of supply is less than the stipulated margin of preference. In practice, it is extremely unlikely that there will be many preferred articles in respect of which this condition will be fulfilled ; for it will be clearly the duty of a country to refuse preference, in such cases, beyond the amount needed to equalize the varying landed costs of foreign imports. In Appendix VI a list is given of the commodities in respect of which both protective and preferential duties are in force under the terms of the Indo-British Trade Agreement of 1939, as modified by the General Agreement on Tariffs and Trade (1947). It will be seen from the nature of the preference granted to these articles that they are hardly likely to impose any additional burden on the consumer.

Effect of preferential duties on the prices of preferred commodities

324. We shall now examine the principles underlying preferential duties generally and their effect on the economy of the country. The economic principles relating to preferences were succinctly set out in paragraphs 224 and 225 of the Report of the Indian Fiscal Commission, 1921-22. There is little that we can usefully add to that analysis. Broadly speaking the theory of differential import duties suggests that their effect on a commodity or a group of commodities would depend on

(a) the elasticity of demand for that commodity (or group of commodities) in the country granting the preferential concessions, and (b) the relative elasticity of supply of the preferred and non-preferred sources of imports. Given the nature of demand for imports, the price of imported commodities will tend to fall if the preferred source of supply can increasingly provide the requirements of the domestic market. This in its turn will depend on the relative enterprise and efficiency of the preferred source of supply. A country 'X' should, therefore, grant preferential concessions to those industries of another country 'Y' which are relatively more efficient and 'elastic' in supply than similar industries in another country 'Z'. It is difficult to measure the relative efficiency of industries in different countries, and the only practical index is the proportion of the domestic market that can be captured by the preferred source of supply within a reasonable period of time.

It is difficult to ascertain, in retrospect, how far these principles were followed in the negotiations leading upto the Indo-British Trade Agreement of 1939, or to assess the merits of the existing preferences with reference to them. The pre-war statistics of imports of preferred articles are available only for a period of six months after the execution of the Agreement, and post-war figures are vitiated not only by the restrictions on the free flow of international trade and commerce which were imposed immediately after the outbreak of the War and have continued ever since, but also by the large-scale changes in the conditions of demand and supply that occurred during and after the war. These factors make it impossible to apply in practice the only pragmatic test that can be used to measure the relative efficiency of a foreign source of supply and to which we have referred above. Since these factors are likely to remain operative for some years, no useful purpose will be served by attempts to assess the effect of preferential duties on the economy of the country.

Recommendation

325. Having examined the relevant aspects of the existing preferential system, we are now in a position to define our attitude towards it. We have already indicated the changes in the pattern of trade between India and the Commonwealth countries with particular reference to the United Kingdom indicating the value of the preferences given and received by India. From the figures, it appears that between 1938-39 and 1948-49 India's share of

the export market in preferred articles in the United Kingdom has fallen while United Kingdom's share in the Indian market in preferred articles has remained satisfactory. India's policy in regard to preferences needs to be reviewed in the light of the situation revealed by these figures. In their brief to the Indian Trade Delegation to the Geneva Conference on tariff negotiations in 1947, the Government of India indicated their policy in the following words:—

> "India should endeavour during the negotiations to make its maximum contribution to the realization of the ultimate objective by agreeing to the fullest practical extent to the abolition or reduction of the preferences enjoyed by the United Kingdom and colonies in India and those enjoyed by India in the United Kingdom and colonies in return for tariff reductions by foreign countries".

As we have already seen, in pursuance of this policy, both India and the United Kingdom reduced the margin of preference granted to each other in respect of a large number of items, and pledged themselves to a binding of the reduced rates of preference against any increase in future. The action taken by the two countries was in line with their obligations arising out of the Charter of the I.T.O. In all these circumstances, we suggest that India should commence negotiations with the United Kingdom and the colonies for reviewing the whole position. The continuance or otherwise of preferences should be decided on exclusively on a consideration of economic advantages and on the basis of mutual interests.

BOOK VIII

CONCLUSION

In this Book, we sum up the results of our enquiry. In Chapter XXIV we indicate, on the basis of our analysis, the objectives of a short-term economic policy and the priorities associated with it. Chapter XXV contains a summary of the principal findings and recommendations in the Report.

CHAPTER XXIV

OBJECTIVES AND PRIORITIES OF A SHORT-TERM ECONOMIC POLICY

Problems of Implementation

326. In the foregoing chapters, we have attempted to indicate a pattern of economic development for India. This development will necessarily take place in stages—the rate of progress depending on the variety of factors to which we have referred *viz.*, availability of resources and the efficiency with which they are utilised,—including in the private sector, the manner in which the policy of protection and of other measures of assistance is implemented. This will call for continuous adjustment of administrative methods and practices and it would be necessary to ensure that short-term policies are viewed in the wider perspective of the long-term objectives of the country's economic policy.

In the next Chapter, we summarise our findings and recommendations but before we pass on to it we should like to focus attention once again on the tasks that face the country in the immediate future.

Objectives o short-term Economic Policy

327. In several Chapters of our report we have sought to differentiate between short-term and long-term aspects of our recommendations. We think that it will be useful (i) to present a connected view of the problems of the short-term period and (ii) to indicate in a general way how the available resources can be most effectively directed towards the achievement of the ends in view. We are concerned here only with the economic, not the social service, activities of governments and our aim is to indicate our conception of what the "priorities" might be in this field. The objectives which the nation has to place before itself in the shortterm period are:—

(i) Rationalisation of Agriculture*—The programmes for eliminating dependence on imports for foodgrains now before the country should merge with a wider plan for the most efficient use of the country's agricultural resources by the application of modern scientific research and the evolution of a diversified economy in rural areas. Increased

*In the term agriculture are included forestry, animal husbandry, fishery also occupations subsidiary to agriculture, Cottage Industries, etc.

production of cotton and jute should also figure prominently in this. A target should be placed for the country which would be high enough to arouse nation-wide enthusiasm.

(ii) Concentration on basic and key industries and on those producing essential raw materials and consumption goods, *e.g.*, Iron and Steel, Coal, Cement, Textiles, Sugar—should be increased.

(iii) A sustained drive for increased exports especially to dollar areas.

328. In Chapter VII we have dealt with the first of the above objectives. We have indicated the variety of measures comprised in a co-ordinated effort for maximisation of output from agriculture and the sort of "institutional set-up" that is essential to lift the people out of themselves and enlist their interest and support in the great task of bettering their own condition. We have also dealt with objectives (ii) and (iii) in Chapters VIII, IX and X respectively. It is unnecessary for us to emphasise the fact that the achievement of these objectives for the short-term period will be possible only if all available resources are employed to the best advantage and there is no dispersal of effort in directions which are not immediately urgent. "Priorities" should be fixed with this principle in view, and observed by the Central and State Governments. Nothing can be more injurious to the permanent interests of the country than a weakening in the strict enforcement of such priorities.

Priorities of short-term Economic Policy

329. We begin by saying that defence and basic and key industries stand in a special position. Such defence industries as are needed have to be established by the Central Government.

As regards basic and key industries, the policy should be to complete the projects already commenced and not to start any new ones unless there are specially weighty reasons for doing so.

330. Leaving these industries aside, the highest priority should be given by Governments to schemes of agricultural improvement in the broadest sense—those for increasing the production of food, cotton, jute, etc., and for the development of cottage industries on the lines contemplated in Chapter VIII. Irrigation and multi-purpose projects including minor irrigation works are of the utmost importance for India in view of the small proportion of the total cultivated area that is irrigated. Expenditure under these heads is mainly the concern of the States but the Central

Government should assist States by grants and loans. Such assistance is specially necessary in regard to major irrigation and multi-purpose projects, which are beyond the financial capacity of individual States. The Central Government should:—

(i) make such financial assistance available on a basis that will make it possible for long-term programmes to be prepared and well-devised arrangements to be made for execution of projects; and

(ii) also make available to States expert assistance of the highest quality to ensure efficiency and economy. We would also urge that State Governments would be well advised to concentrate their energies and resources on these schemes leaving industrial ventures—especially those which under the industrial policy Statement of April 1948 come within the private Sector to be undertaken by such private enterprise as may be forthcoming.

331. Next in order of priority come industries which are necessary for the implementation of the agricultural programme and the construction and maintenance of large irrigation and multi-purpose projects. In Chapter IX we have drawn attention to the demand for machinery and equipment which will arise from the execution of the multi-purpose projects. The setting up of industries to meet these demands should be encouraged. Other schemes under this head are:—Mechanical and electrical equipment for irrigation; manufacture of improved implements needed by cottage industries; a net-work of industrial establishments for manufacture of agricultural implements as suggested by us in Chapter VIII; manufacture of fertilizers, etc. Possibly also the manufacture of tractors suitable in Indian conditions will be necessary. All these industries can be established by private effort and the Government should give all assistance needed to bring them into existence as early as possible.

332. Next come programmes for increasing production in the industries producing basic raw materials and consumption goods. Besides protection Government assistance in varied forms will be necessary for this—*e.g.*, import licences for replacement and renewal and essential additions to machinery; special measures for supply of raw

materials etc. It would also be desirable for Government to encourage the establishment of industries for the manufacture and repair of machinery and equipment needed by these industries. We have indicated in paragraph 128, Chapter IX, the principles which should regulate priorities in this field. Clauses (c) and (d) of the priorities indicated in this Chapter for the private sector are applicable in this context and efforts should be made to stimulate private enterprise to establish industries:—

(i) which are complementary to these industries *e.g.*, those which will manufacture machinery, parts etc., needed by them, and

(ii) which will increase the external economies of these industries resulting from the establishment of a group of allied industries.

We have already given our view on the issues connected with the policy of protection and of other forms of assistance that should be followed in the future.

333. *Pari passu* with these there should be efforts to stimulate the tertiary occupations which will be needed when the agricultural and industrial developments envisaged above are taking place. Here again except in regard to communications there is scope for private effort.

334. The stimulation of exports should also receive adequate attention in this period. In Chapter X, we have discussed the directions in which India's export trade is expected to expand.

335. We believe that in the short period, concentration on the programme indicated above in general terms is essential to prevent waste of energy and resources. Only by strict adherence to such a policy can the foundations be laid for large scale economic development in future years and a sound long-term economic policy.

CHAPTER XXV

SUMMARY OF FINDINGS AND RECOMMENDATIONS

BOOK I

Introduction and Approach

Chapter I: Introductory

This Chapter is purely introductory. In it we elucidate our general approach to the question referred to us—*viz.* the place of protection and other forms of assistance in a co-ordinated policy of economic development—and explain the plan of the Report.

Chapter II: Fundamental Objective of an Economic Policy

We consider it necessary to preface our enquiry with an enunciation of the fundamental objectives of the country's economic policy because it is only against their background that any policy for protection of or assistance to industries can be adequately formulated.

The fundamental objectives of an Economic Policy for India must conform to the "Directive Principles of State Policy" as laid down in the Constitution and the Industrial Policy Statement of 1948 and should be broadly as follows:

"*first,* avoidance of unemployment, or under-employment through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of a large and steadily growing volume of production and effective demand for goods and services;

"*secondly,* sound, efficient, and fuller utilisation of natural resources;

"*thirdly,* steady and progressive increase in standards of productivity, elimination of sub-standard conditions of labour and the creation of incentives that will stimulate enterprise;

"*fourthly,* special measures for the development of agriculture including animal husbandry, on modern scientific lines for the production of food and of essential raw materials for industries (cotton, jute, etc.); for the establishment and development of industries for the processing of domestic primary commodities;

"*fifthly,* special measures for the development of cottage industries and small-scale industries on co-operative or individual lines;

"*sixthly,* ensuring that large scale industrialisation occupies a prominent place in any programme of development as capital equipment and modern techniques can make a notable contribution to increases in production, productivity and standards of living—in this field a mixed economy is indicated;

"*seventhly*, the introduction of a diversified economy which would lead to a better utilisation of the diversified talents of the community and its diversified human and natural resources and would enable the population to lead a full and a richer life than would otherwise be unattainable." (Para. 12).

In implementing these objectives, we recommend that early attention should be given to the following problems:

(a) a close study of the problem of population;

(b) the need for enlisting popular enthusiasm in economic development plans.

As a preliminary to (a), we recommend the constitution of a small expert committee to review the population data available to suggest what additional information should be collected to study the trends in population growth. (Paras. 13 and 14)

Book II

A Historical Retrospect

Chapter III: Changes in India's Economic Background

We have examined the changes that have taken place in different sectors of the country's economy—agriculture, industry and foreign trade—as a result of the following factors:—

(a) the great depression of 1929-33;

(b) the separation of Burma;

(c) World War II; and

(d) the partition of India, 1947.

Our review of the changes that have taken place since 1923 reveals that in spite of the advances made in some lines of manufacture, the deficiency in the different sectors of the country's economy still remain considerable and a

great effort will be needed to make up the leeway in the country's agricultural and industrial production. (Para. 40)

Our finding is that so far as the pre-war tariff policy is concerned, it can be claimed that the policy of discriminating protection, within its limited scope, has achieved a fairly large measure of success and that on balance the direct and indirect advantages to the community resulting from the protection granted to the major industries which received it have offset the burden on the consumers. **Chapters IV: V and VI: Results of Past Policy**

The results of protection granted since 1945 to the new industries are, however, less conclusive. We find that the burden of protection of some of these war-time industries on the consumers has not yet been appreciably reduced. It is, however, too early to express any views on the success of the policy of protection in respect of these industries. (Paras. 88 and 89)

BOOK III

Pattern of Economic Development

We are convinced that in formulating a development policy for India, we should keep in the forefront the basic significance of agriculture in the country's life and economy. (Para. 93) **Chapter VII: Agricultural Development**

The solution of the problem of under-employment in agriculture has to be sought in the concurrent adoption of a two-fold programme:—

first, **rationalisation of agriculture, *i.e.*** maximisation of production in terms of yield per acre by steadily improving agricultural methods and promoting an intensive system of mixed farming, and

secondly, drawing away the surplus forces from land into industries—occupation subsidiary to agriculture, cottage and small-scale industries, large-scale industries and tertiary occupations. (Para. 93)

The main problem in agricultural development is how to evoke the enthusiasm of the agriculturist for plans for the betterment of his condition.

The greatest need at present in India is an extension service with the object of bridging the gap between research and the practices of producers, similar to those

which have been found so valuable in the U.S.A., U.K., etc. (Para. 96)

An important role should be assigned in future plans to industries subsidiary to agriculture and cottage and small-scale industries and a radical change should be effected in their technique and organisation by continuous research and in other ways to enable them to meet the increased demand for profitable employment that will be made on them. It should also be laid down that in regard to industries in which certain processes can be suitably "decentralised", these processes should be carried on in small-scale establishments, allowances being made for the private and social costs involved. There should also be a much wider recognition than at present of the opportunity for profitable employment afforded in fairly developed economies by tertiary occupations. (Para. 97)

Chapter VIII: Cottage and Small-scale Industries

The process of industrialisation in this country, seen in its true perspective, is basically a problem of the reorganisation of India's occupational pattern. Whether this process should take the form of cottage, small-scale or large-scale industries, will depend primarily on:—

(a) the nature of the industry,

(b) the technological character of the industry,

(c) the relative proportion of capital and labour, needed for the organisation of the industry,

(d) the extent to which decentralisation in production in small units is economical on the basis not merely of its private cost but also of its social cost and

(e) the rate at which it is desired to effect a change in the occupational pattern. (Para. 100)

The case for cottage and small-scale industries rests fundamentally on the 'employment aspect' and that its true place in the economy of the country is determined by the relative importance of their private and social costs in relation to similar costs of large scale industries. We elucidate this argument in paras. 102 to 104.

The rural industries that can be most economically developed are primarily those that depend on the produce of agriculture (including forests) and the manufacture of utility articles of common consumption that do not call for intensive physical effort or the exercise of a high degree of

skill or complicated technical processes. The absence of electrical power in the villages will, for many years, compel the rural industries to depend on other forms of motive power *e.g.* steam or oil engines. (Para. 113)

State initiative and assistance should play an important part in the promotion of cottage and small scale industries. In our view in each State there might be set up a statutory corporation aided by the State Government to be in charge of the measures which should be adopted for stimulating the growth of cottage and small-scale industries. (Para. 115)

In cases where no conflict exists between large-scale cottage and small-scale industries, we recommend that the detailed investigations which were promised in the Industrial Policy Statement should be pressed forward with the utmost expedition and a programme of action should be drawn up as early as possible in consultation with all the interests concerned. (Para. 118)

Where, however, large-scale industries compete with cottage and small-scale industries and it is established that the latter deserve support against the competition of the former, we recommend that Government should take such steps as may be necessary to safeguard the position of the latter after consultation with the interests affected, till such time as they are able to stand on their legs. (Para. 119)

Chapter IX Pattern of Large-scale Industrialization

On a study of the natural and mutable factors of production we conclude that the pattern of industrialization in India will follow broadly the lines of development in countries such as East Continental Europe, China and Japan and that within the limits set by these basic factors, the pattern of India's heavy industries will be determined by the natural advantages which its iron and steel industry enjoys. (Paras. 123 and 124)

The broad picture of the development of large-scale industries that emerges from our analysis is briefly as follows: —

(i) defence industries—including not only the industries concerned with the manufacture of arms, ammunition but also a large number of other highly-skilled ancillary industries like aircraft manufacture, wireless communications, cables, etc., which will serve not only defence but also civilian requirements;

(ii) heavy key industries whose products are of such importance that any interference with the supply such as might arise from a cessation of imports would bring other industries to a standstill *e.g.* industries for the manufacture of transportation equipment, rolling stock, wagons, etc.; shipbuilding to the extent that it provides the nucleus of a merchant marine, etc.;

(iii) heavy basic industries—which provide the foundations of many other capital goods as well as consumption goods industries *e.g.* iron and steel industry, machine tools industry, automobiles, tractors and other heavy machinery;

(iv) light basic industries, *e.g.*, some important chemical industries, whose products are essential for the manufacturing processes of other industries, *e.g.*, caustic soda, non-ferrous metals, electro-chemical engineering, agricultural implements, prime movers, etc.;

(v) essential consumption goods industries with a nation-wide market, *e.g.*, cotton and woollen textiles, cement, sugar, paper, etc. (Para. 127).

We recognize that it may not be possible for India to achieve the pattern of development envisaged above, and it may be necessary to proceed step by step on the basis of an order of priorities. On the assumption that there will be planned policy we suggest the following order of priorities for the public sector:

(i) *first,* the essential defence industries;

(ii) *secondly,* industries connected with the development of natural resources, *e.g.* water-power, *i.e.* the multipurpose projects and key minerals like coal and petroleum;

(iii) *thirdly,* public utility industries, *e.g.* railway transportation, electric power generation (where it is State managed), etc;

(iv) *fourthly,* heavy key and basic industries which in the absence of private enterprise the State may have to initiate and develop.

In the private sector the following priorities may be observed:—

(i) the increase of production in existing undertakings upto the maximum of their installed capacity;

(ii) the expansion of existing industries upto the limits of effective demand in their market with special reference, wherever possible, to export markets;

(iii) the establishment and development of industries which are complementary to existing industries in the public or the private sector, *e.g.* industries which manufacture the components of other industries or which carry the processes of production a stage nearer final consumption;

(iv) the establishment of such industries are related to existing industries and may increase the external economies resulting from the establishment of a group of connected industries;

(v) the establishment of industries catering for a large market, internal and external, rather than those satisfying a limited or specific demand.

(Para. 128)

One important problem on the future pattern of large-scale industries requires special consideration, namely, location of industries. The site for many industries is pre-determined by the nature of their requirements of raw-material, labour-supply, water-supply and other services. that can be provided elsewhere only at a higher social cost. In the case of other industries which are more mobile, various factors will have to be taken into account before the location can be planned. These will include—

(i) security factors,

(ii) sources of raw-material and power,

(iii) labour supply,

(iv) communications and transport facilities,

(v) distance from the consuming centres, and

(vi) the existence of related industries.

(Para. 129)

We recommend that in planning the location of industries it will be prudent for Government to rely in the first instance on negative measures to prevent the further concentration of industries in areas which are already over-congested. Simultaneously positive steps might be taken to improve the attractiveness of areas where from the social point of view it is proposed to encourage the migration of existing or new industries. The extent to which

the agency of trading estates on the lines of those in the U.K. may be utilised for this purpose merits careful study. (Para. 129)

We further recommend that, subject to the criteria laid down, the processes of decentralization of large-scale industries and the establishment of large-scale industries in rural areas should be encouraged. (Para. 130)

Having regard to the available capital resources and technical ability we do not think that it is possible to achieve a more intensive pattern of large-scale industrialization than that visualized in this Chapter except through a measure of austerity or regimentation which in the circumstances of this country we consider it extremely difficult to enforce. (Para. 131)

Chapter XI Pattern of Foreign Trade

The aim of short-term foreign trade policy should be not merely to achieve equilibrium at an easily attainable level but to create conditions in which current foreign exchange receipts are sufficient to pay for the volume of imports necessary:—

(i) to carry out a production plan based on the most efficient use of existing productive resources and plant capacities;

(ii) to achieve a pre-determined programme of investment in essential replacements, re-stocking and in essential new lines of manufacture; and

(iii) to maintain a pre-determined level and structure of current consumption.

In order to attain these objectives, it is necessary to attack the balance of payments position both on the demand and supply side. These measures will include—

(i) monetary, budgetary and other economic measures designed to achieve internal economic stability, *i.e.* what are known as "disinflationary measures".

(ii) exchange rate adjustments, *i.e.*, devaluation of the currency,

(iii) bilateral or regional trading arrangements, and

(iv) adjustments in the structure of production.

(Para. 141)

The object of the country's long-term foreign trade policy should be—

(i) to direct these short-term developments along channels which will eventually enable the country to consolidate its position in those fields;

(ii) to promote a pattern of import trade by means of which India can obtain the foreign resources necessary for the development of its agriculture and those cottage, small scale and large scale industries which it may wish to develop according to the patterns of development foreshadowed in the previous chapters;

(iii) to promote a pattern of export trade (*i.e.* in volume, composition and direction) that will enable India (a) to pay for its essential imports and (b) to specialise in those exports in which it may have a comparative advantage and (c) to direct its export trade to those markets in which it will have the least difficulty in maintaining its hold against competition from other countries. (Para. 145)

To create conditions necessary for bringing about the desired changes in the pattern of export trade, a national shipping policy and the establishment of Indian banking and insurance houses require special mention. (Para. 150)

The development of agriculture.—Without the initiative and sustained assistance of the State, there is little likelihood of any substantial improvement in the standards of living of cultivators. This means that for many years to come the resources of the State would have to be devoted in a large measure to these purposes and the Central Government should supplement the efforts of State Governments by assisting them specially in regard to multi-purpose and large-scale irrigation schemes. (Para. 152) **Chapter XI State Po icy**

Small-scale Industries.—State policy in regard to development of small-scale industries will be concerned with the following:—

(i) The types of activities associated with the improvement of their production and marketing methods. These activities will include all forms of assistance to existing cottage industries, whether in urban or rural areas to such small manufacturing units

as operate in rural areas and to all small-scale establishments in urban areas. These different types of cottage and small-scale industries will necessarily require different forms of administrative organisation. Appropriate organisation would need to be set up not merely for specific purposes, *e.g.* supply of raw materials, supply of finance, provision of marketing facilities, but also to deal with special problems of the different types of cottage and small-scale industries in respect of their requirement of these facilities.

(ii) Another major field of State activity will centre round the establishment and administration of new small industries in rural areas that may be set up in conformity with the pattern of development that we visualise. It will be the responsibility of the State to set up the right type of organisations for this purpose. Organised trade and industry might no doubt help but this will be forthcoming mostly in a consultative or advisory capacity and for specialised *ad hoc* services.

(iii) There is a third type of activity that the State will have to undertake in this connection. It will have to regulate the relations between cottage and small-scale industries on the one hand and large-scale industries on the other, and to integrate their production and distribution patterns according to the broad principles that we have suggested. Clearly this function of the State will have to be discharged in consultation with the interests concerned and with the object of maximising economic welfare. (Para. 153)

Large-scale Industries.—In regard to the large-scale industries, State policy will be primarily concerned with:

(i) various forms of assistance that the existing organised industries will require. Here the role of the State will be to arrange for such necessary supplies and services as cannot be obtained without State assistance and to ensure their equitable distribution so that production may be maximised and quality ensured;

(ii) the establishment under the control and management of the Government of all such industries in the nationalised sector as it may decide on;

(iii) encouraging the establishment of such key or basic industries as need to be promoted and fostered in conformity with the desired pattern of industrial development;

(iv) giving facilities necessary for the establishment of other industries in the private sector. (Para. 154)

Foreign Trade.—As regards foreign trade, the role of the State in the short-period will be to exercise control over imports and exports so as to solve the balance of payments problem. In the long-period in order to promote the patterns of industrial development outlined in the report, the State may have to regulate the volume and composition of import trade in the interests of India's industrialisation policy and also to encourage actively the development of new lines of export. The forms of regulation and assistance will depend on developments in national and international policy. One of the impediments in the way of efficient execution of State policy is the weakness of the present administrative machinery. (Para. 155)

In the long run the country should be able to solve the dilemma arising out of the urgency of planned development and the shortcomings in the administrative machinery. In the short-period it will be forced by these very limitations to regulate the pace and direction of advance and keep it within the limits set by the capacity of the available administrative machinery. The Government will have to concentrate in the earlier years on the most essential tasks including in this the "creation of an administrative machine that can do work of planning". (Para. 157)

Book IV

Fiscal Policy and Industrial Development

Chapter XII· Principles of Protection

Tariff protection is primarily a means to an end—one of the instruments of policy which the State must employ to further economic development of a country. The protection of industries should be related to an over-all planning of economic development—otherwise there may be unequal distribution of burden and un-co-ordinated

growth of industries. However until such a plan has been approved, protection to industries should continue to be granted on the principles given below. (Para. 159)

A. Industries coming under the planned sector immediately may be grouped under the following classes:—

(1) Defence and other strategic industries,
(2) Basic and key industries and
(3) Other industries.

Industries falling under group (1) should be protected whatever the cost may be on national considerations. Regarding basic and key industries coming under the plan, the Tariff Authority will decide the form of protection and the quantum thereof and will

(i) lay down terms and conditions for the grant of protection or assistance and

(ii) review from time to time the extent to which these conditions have been or are being complied with by the industries.

As regards the third category, we recommend that the criteria to be applied for granting protection should be as follows:—

"Having regard to the economic advantages enjoyed by the industry or available to it and its actual or probable cost of production, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or assistance

and/or

it is an industry to which it is desirable in the national interest to grant protection or assistance and, having regard to the direct and indirect advantages, the probable cost of such protection or assistance to the community is not excessive."

B. As regards industries which are not included in approved plans, the Tariff Authority should examine the claim for protection on the criteria set out above and submit its recommendations to the Government.

C. Where no approved plan exists, the position should be as follows:—

(i) Defence and other strategic industries:
They should be given protection whatever the cost may be, on national considerations;

(ii) As regards other industries, the criteria to be applied will be the same as those set out in Section A above. (Para. 161)

Some specific issues of protectionist policy.—(a) *Availability of raw materials.*—Local availability of raw materials should not be a condition for the grant of protection if the industry possesses other economic advantages *e.g.* internal market, availability of labour etc. (Para. 163)

(b) *Potential Export market.*—It seems to us legitimate to take into account a potential export market in order to determine the comparative advantages of an industry *vis-a-vis* its rivals. (Para. 164)

(c) *Ability of an industry to meet the domestic demand.*—Although ordinarily a protected industry should be eventually able to satisfy the needs of the entire domestic market this should not be laid down as a condition of grant of protection and in the short period it would suffice for the Tariff Authority to consider the potentialities of the industry for expansion so as to cover a sizeable portion of the internal market within a reasonable period of time. (Para. 165)

(d) *Protection to industry which produces the raw materials or stores of other industries.*—Industries using the products of protected industries may require compensatory protection. The type of compensatory protection that may be needed in a particular case will depend on

(a) the type of raw materials or stores produced,

(b) the nature of the additional burden likely to be imposed,

(c) the proportion that the cost of raw materials or stores bears to the total cost of manufacture of the finished product, and

(d) the nature of demand for the finished product and other connected considerations. (Para. 168)

(e) *Protection to new or embryonic industries.*—The need for an assurance of protection prior to the actual establishment of an industry is particularly strong in those industries which require heavy capital outlay or a high degree of specialisation in personnel, and plant equipment and are likely to be subjected to intense competition from well-organised and established producers abroad. In such cases

we recommend that the Tariff Authority should be asked to examine the facts and estimates relating to the industry and the nature of foreign competition that it is likely to encounter and then advise Government as to the protection or assistance needed by the industry in the light of the conditions laid down in paragraph 161. (Para. 169)

(f) *Agricultural protection.*—We recommend that, if national interests so require, agricultural products may be protected but in granting such protection it should be stipulated that

(1) the number of commodities should be kept as small as possible,

(2) the principle of selection should be

(a) the importance of the raw materials of industry that they provide and

(b) the volume of employment that they offer,

(3) protection should be on an interim basis limited to short periods—never more than five years at a time,

(4) a programme of agricultural improvement must accompany the scheme of protection and form an integral part of it, and

(5) it should be the special responsibility of the Tariff Authority to report to Government annually on the progress of technological improvements in the production of these commodities. (Para. 170)

(g) *Internal taxation and protection.*—(i) *Central Excises.*—On broad grounds, the levy of Excises on protected articles is inadvisable and it should be resorted to only where it is needed for budgetary purposes and no alternative sources equally suitable are available.

(ii) *Sales taxes by States.*—Most of the complaints which we heard regarding the imposition of Sales Taxes should be removed under the provisions of Article 286 of the Constitution which regulates the levy of Sales Taxes by the States.

(iii) *Levy of Cesses.*—The levy of cesses for promoting research is unobjectionable so long as the rates are moderate and the whole of the tax is actually spent on research and not diverted to other purposes.

(iv) *Fixation of Prices of raw materials.*—We consider it legitimate that the Central Government should fix the prices of raw materials of protected industries by Central legislation whenever such price fixation becomes necessary. Legislation by individual States for this purpose leads to difficulties. (Para. 171)

Tariffs.—The form of import duty to be imposed in a particular case will depend on the nature of the commodity and the administrative problems involved in the appraisal of value for customs purposes. (Para. 174) **Chapter XIII: Form and Methods of Protection**

We suggest that a Development Fund should be created by setting aside every year a portion of the revenue collections from protective tariffs. With such a Fund, subsidies, in lieu of or in addition to protective tariffs, can be given more freely than is possible under the budgetary conditions of the present. We also recommend that a strong "after-care" organisation to provide facilities necessary for rapid development of protected industries may be set up in the appropriate ministry. (Para. 175)

Quantitative restrictions.—We recommend that for purposes of protection to domestic industries, in normal cases. quantitative restrictions should be used sparingly. Temporary quantitative restrictions would, however, be justified against abnormal imports. (Para. 177)

Subsidies.—As a general rule subsidies would be preferable to tariff protection in the following cases:—

(1) where domestic production meets only a small fraction of domestic demand,

(2) where the commodities are essential raw materials or ingredients of production, and

(3) where the manufacture of certain quantities or grades of commodities produced in the country needs protection but it is difficult for purposes of levy of import duty to distinguish those grades or qualities from others against which no protection is needed. (Para. 178)

Pooling is applicable only to commodities of a highly standardised nature. We recommend that the Tariff Authority should examine cases where pooling arrangements would eventually reduce the burden on the consumer. (Para. 179)

Tariff quota.—It is difficult, on *a priori* grounds to decide on the particular stage of development of an industry at which such a scheme would be suitable. In certain cases where the initial capacity of the industry to supply the requirements is low the tariff quota assures the consumer of the availability of sufficient supplies. It also puts a premium on efficiency and rapid progress thereby guarding against the formation of local monopolies to exploit a situation where imports are rigidly restricted by quantitative restrictions. (Para. 180)

Quantum of protection.—In determining the cost of production of a commodity, we consider it necessary for the Tariff Authority to lay down uniform and standardised rules. (Para. 184)

We understand that the question of depreciation allowance is under the examination of the Government of India. We would emphasise the importance of an early decision. (Para. 184)

We also suggest that a standardised practice might be evolved by the future Tariff Authority in consultation with all interests in the industries concerned regarding the remuneration to be allowed to managing agents for purposes of calculation of costs.

The entire subject of the return on capital in protected industries and the valuation of the capital employed or the block on which such return is to be allowed should be subject to detailed investigation by the Tariff Authority. We need not add that this return on capital should be fair. (Para. 184)

We consider that where an element of prejudice is established, the Tariff Authority should add an appropriate margin to the quantum of protection proposed for the industry. (Para. 185)

Period of protection.—As a general principle, industries should be assured of protection for a reasonably long period so that capital may be attracted and a suitable programme of improvements may be drawn up and implemented. (Para. 186)

Administrative Protection.—We consider restrictions, etc. under Sea Customs Act for purposes of protection unjustifiable not only from the point of view of international relations but also because their use conceals the true character and burden of protection to the community. (Para. 190)

Stores purchase policy.—The Stores purchase policy of Government should be so framed that the indigenous industry receives a reasonable margin of preference over foreign articles. For this purpose we lay down the following conditions:—

(1) All industries run on sound business lines should be eligible for preference on condition that the products conform to such specifications as may be laid down by Government on the recommendations of the Indian Standards Institute.

(2) A higher margin of preference should be given to the products of cottage and small-scale industries and conforming to such specifications as may be laid down for them. (Para. 193)

The obligations of protected industries should mainly be with regard to price policy, production or output policy, quality of production, adoption of technological improvements, research, training of apprentices and higher grades of labour and anti-social activities. (Para. 199) **Chapter XIV: Obligation of Protected Industries**

It is not our view that the obligations regarding these matters should be embodied in the relevant Statutes dealing with protected or assisted industries as this would introduce a needless element of rigidity into the working of schemes of protection. The plan of implementation that we visualize is broadly as follows:—

1. These obligations should be treated as Directive Principles of Tariff Administration and should be embodied in the Statute dealing with the establishment of the tariff making authority. These principles will not, however, be "enforceable" in the juridical sense but it should be the duty of the Tariff Authority to bear them in mind when they examine the claims of protection of particular industries.

2. Having made up its mind as to the obligations that should be imposed, the Tariff Authority should work out the conditions subject to which the obligations should be imposed. A programme for implementation should also be worked out.

3. (a) The Tariff Authority should report to Government in its periodical reviews the manner in which the obligations are being discharged by the protected industries;

(b) The difficulties that hamper the discharge of these obligations;

(c) The further measures necessary to secure enforcement of the obligations; and

(d) The changes in the terms of obligations, if any, that may be called for. (Para. 201)

BOOK V

Other Factors in Industrial Development

Chapter XV: Development of Capital Resources

The difficulty of securing investible funds for financing industrial undertakings has become acute since the beginning of 1947. The major handicaps to capital formation are stated to be as follows:—

(a) Fear of nationalisation.

(b) High level of taxation.

(c) Abuses of managing agency system.

(d) Speculation leading to gambling at Stock exchanges and

(e) The shift in the distribution of national income from urban areas to rural areas.

Remarks are made under each of these heads. (Paras. 207-212)

We consider that capital control in its present form should be abolished. As, however, the Planning Commission has now been appointed, a new machinery may be devised for directing capital into approved channels. (Para. 213)

On a study of some recent estimates of the rate of savings and investment in India we conclude that India's minimum requirement of capital expenditure will be roughly of the order of Rs. 330 crores a year at the current level of prices. We find that it may be difficult for the country to achieve a higher rate of savings and investment unless coercive measures are adopted and the people are subject to a degree of austerity in current consumption which it may be very difficult in practice to enforce. (Paras. 215 to 218)

The consensus of opinion is that as a general rule foreign capital should be invited for

(a) projects in the public sector of the economy which depend on the import of capital goods, plant, machinery, equipment, stores, etc., from abroad,

(b) undertakings in the private sector which involve new lines of production and where indigenous capital and management are not likely to be forthcoming.

We are in general agreement with this view but would stipulate that in special cases where the quantity of domestic production is small in relation to the total domestic demand and the indigenous industry is not likely to expand at a sufficiently fast rate, there should be nothing to prevent Government from inviting foreign capital on such terms and conditions as they may lay down. (Para. 221)

Broadly speaking the indirect form of investment is preferable when foreign capital is needed only to pay for foreign machinery and equipment and the type of consultant service that is provided by the manufacturer of such equipment. The direct or equity form of investment is more appropriate in those cases where, besides capital, the technical know-how of the foreigner or his technical knowledge or experience is also needed. (Para. 222)

Chapter XVI : Industrial Management

The problems of industrial management have acquired increasing importance since the end of the war. The circumstances of modern industry require the assistance of experts at all stages of industrial management. We find that the deficiencies of private industry in this country—particularly small-scale industry—arise from the lack of expert guidance and supervision. We, therefore, recommend that the Government of India in the appropriate Ministry should set up a bureau of consultants whose services can be drawn upon by private industry on such terms and conditions as the Government may lay down. (Para. 226)

We also recommend that particular care should be taken by industries to appoint duly qualified technical men and to train suitable men for such positions. The types of expert service that we feel our industries should develop are those connected with plant capacity and production control, stores and organisation control, raw material control, quality control and costing. (Para. 226)

Industrial management in the public sector.—The growing importance of the public sector in India's economy and the increasing interest of the State in economic problems calls for the creation of a specialized service. We recommend that early steps be taken to constitute an Economic

service as envisaged in the Industrial Policy Statement of April 6, 1948. (Para. 229)

The structure and conditions of working of Government or quasi-government undertakings should be such as to ensure:

(a) that the community knows the cost of what it is doing,

(b) that the community is satisfied that this cost is equitably distributed and

(c) that the decisions of the public authority are taken democratically.

Apart from the usual accounting safeguards and the obligation to submit periodical accounts in an approved or prescribed form, we would suggest the following measures to ensure this:—

(a) A periodical review of the working of these undertakings by competent authority with a view to the assessment of their efficiency,

(b) the constitution of a Consumers' Council to be attached to each Government or quasi-Government undertaking, with well-defined powers and duties which should include the study of cost statistics, price structure and price policy, enquiry into complaints from consumers about unfair practices or discriminatory treatment according to a definite procedure laid down by Government,

(c) the constitution of a Tribunal on Services and charges on the lines of the Railway Rates Tribunal with functions more or less similar to those of the latter.

The accounts should be maintained on a commercial basis, audited by a competent staff. These audit notes, with reviews thereof, should be placed before the Minister concerned so that Parliament may be kept informed of the manner in which these undertakings are working and their cost to the community. (Para. 230)

We further recommend that having regard to the increasing importance of the subject, the Government should have special studies made of the problems of management of Government and quasi-Government undertakings in the light of the experiences which countries like U.K.,

Australia, Canada and the U.S.A. have acquired. (Para. 231)

Industrial research.—Organized industrial research in this country is of comparatively recent growth. There are two aspects of research which deserve special mention:

(1) The establishment of industrial research institutes should be the joint task of the Government and of the industries.

(2) The work of the research institutes organised by private industries should be integrated with the activities of the research institutes established or administered by Government or quasi-Government authorities. (Para. 235)

Standardisation and quality control.—We are in general agreement with the principles evolved by the Indian Standards Institute in prescribing standards for various articles. There is a *prima facie* case for making the observance of the approved standards obligatory on the industries concerned—at any rate on those industries which have a large export market or which provide the raw materials of exportable commodities. (Para. 237)

There are indications that in recent years there has been an appreciable fall in labour efficiency and this presents a problem that must be tackled in a co-operative spirit by Government, industry and labour. (Para. 240)

Chapter XVII : Labour efficiency in relation to Industrial Development

The solution of the problem of deterioration in labour efficiency rests in the short period on an effective machinery for collective bargaining and arbitration and sound employer-labour relations and in the long run on training and education and on far-seeing management of business undertakings. (Para. 241)

Training of Labour.—One important lacuna in our scheme of technical training is the lack of facilities for training of technicians of the foremen class. To remedy this draw-back, technical institutes of the model of the one recently started by the Indian Jute Mills' Association should be extended to other industries also. (Para. 244)

Chapter XVIII : Tertiary Production in relation to Industrial Development

Transport.—(a) *Roads.*—While we appreciate the reasons for the importance attached to national highways, we feel that one consequence of recent policy has been to tip the balance against roads of "local" as distinct from "all-India" importance. We attach the greatest importance to the

development of village and district roads. We therefore recommend that consistent with the needs of the defence and internal security, a high priority should be given to the development of district and village roads. (Para. 247)

(b) *Railways.*—We think that the question may be examined whether it would not be possible for the railway authorities to introduce rates to assist in the local or regional processing of agricultural or mineral produce and in the decentralisation of industries. We also recommend that the Railway Board might examine the question of simplifying the present procedure for granting station to station rates. (Para. 249)

(c) *Shipping.*—We consider that the development of Indian shipping is no less important and urgent than that of the basic industries. The Government of India are already committed to a policy of assisting shipping. (Para. 250)

(d) *Banking.*—The basic limitation of commercial banking in the country arises from the absence of an effective link between the organized money-market and the money-lender-cum-indigenous bankers. Even within this limitation, the credit facilities offered by the commercial banks to trade and industry are inadequate. We recommend that the entire subject be examined by the Reserve Bank and the Government of India, keeping in view the needs of an expanding economy, and the potential contribution of a sound credit policy to the development of trade and industry. (Para. 252)

Another defect of the banking system in this country is the lack of specialized banking institutions, including a sufficient number of Indian exchange banks. We find that small-scale industries are in a particularly difficult situation as regards finance and recommend that the formulation of special measures to meet their requirement should engage the attention.

We further suggest that the Reserve Bank should study the modern practice in respect of developmental credit in countries like Australia with a view to drawing such lessons from it as may be applicable to the circumstances of this country. (Para. 255).

BOOK VI

Organization and Machinery of Administration

We examine the relations between Planning and Protection, and refer to certain fundamental issues of policy and technique which will confront the Planning Commission in a mixed economy like ours. (Para. 259) **Chapter XIX. Planning and Coordination**

Measures for securing co-ordination of the activities of the different Ministries concerned with economic matters are under consideration. In this connection we commend a suggestion for the establishment of a Board of Trade and Industry for the consideration of Government. (Paras. 261—263)

The Tariff Making Authority should be placed on a permanent and statutory footing and designated as the Tariff Commission'. (Paras. 265—267) **Chapter XX: The Tariff Commission**

The Commission should consist of five members including the Chairman but power should be taken in the proposed Statute to increase the number to seven if necessary. There should also be power to co-opt assessors or advisers for particular purposes. We are definitely opposed to the representation of interests or regions on the Commission and would emphasise that members should be selected primarily on the basis of their competence for the functions which they will have to perform, coupled with their standing in their profession, business or service in which they are engaged, or in public life. (Para. 268)

We recommend that two important conditions of membership should be

(a) that members on appointment must disclose the nature of their interest in private companies, if any, and

(b) the members on relinquishment of their office should be debarred from holding any position of trust and responsibility in any private industrial undertaking for a period of three years except with the prior approval of the Government of India.

The following functions should be entrusted to the Commission:

(a) Enquiries connected with protective and revenue tariffs. This will include—

(1) tariff enquiries proper, *i.e.*, enquiries into applications for protection;

(2) enquiries into cases of alleged dumping;

(3) enquiry into variation of protective and revenue duties; and

(4) enquiry into Tariff concessions under trade agreements.

Enquiries under (1) and (4) should normally be initiated at the instance of the Government of India.

(b) Enquiries connected with prices and the general effects of protection on the economy of the country.

(c) Review of protected industries.

Apart from *ad hoc* investigations the Commission should submit to Government a periodical review, preferably triennial, on the working of protected industries. (Para. 269)

In order that the Tariff Commission can perform its function efficiently, it will require special powers for the summoning of witnesses and compelling the production of evidence which it considers essential. (Para. 270)

We consider that the Commission's enquiries into the various matters enumerated in paragraph 269 should normally be held in public. (Para. 272)

As soon as an enquiry is completed, the Tariff Commission should submit its report to the Government of India in the appropriate Ministry and Government should be in a position to arrive at a decision on the recommendations of the Commission ordinarily within a period of two months. (Para. 273)

We recommend that the authorities concerned with the grant of non-fiscal assistance should give special attention to it and furnish to the Tariff Commission an annual statement on the measures of the assistance given. (Para. 274)

The Commission should be given powers to frame its own rules regarding the internal management of its business including the appointment of personnel up to a certain level, rules of business relating to enquiries, review of the effects of protection and other matters. (Para. 275)

Book VII

Fiscal Policy in Relation to International Obligations

Chapter XXI : International Trade Organisation.

We analyse the provisions of the Havana Charter with particular reference to the sections dealing with Commercial Policy, Restrictive Business Practice, and Economic Development and Reconstruction in under-developed areas. (Paras. 279—291)

We examine the *pros* and *cons* of the Charter and find that in the short period (*i.e.* as long as the present balance of payment difficulties continue) the provisions of the Charter will, in practice, hardly impose any serious limitation on India's freedom to mould its commercial policy in the interests of its domestic economy. In the long run, however, the obligations which the Charter imposes on the members may detract from their right to initiate and pursue commercial policies solely in the national interest. The decisive consideration for the country is therefore, whether or not it should submit to this limitation on its sovereign rights for such advantages may accrue to it by reason of its membership of the International Trade Organization. (Para. 299)

On a consideration of all the relevant factors and consistent attitude which India has hitherto adopted towards measures of international economic co-operation, all of us except our colleague, Shri B. M. Birla recommend that India should ratify the Charter provided:

(1) that the other countries of major economic importance including the U. S. A. and U. K. have by then ratified it and

(2) the economic conditions in the country at that time justify this course.

In making this recommendation to Government we reiterate our hope that the provisions of the Charter concerning the economic development of the under-developed countries of the world will be interpreted liberally by the leading industrially advanced countries of the world. (Para. 301)

Chapter XXII: General Agreement on Tariffs and Trade

We analyse the tariff concessions granted and received by India under the General Agreement on Tariffs and Trade and find that no definite conclusions as to the effect of these concessions on India's import and export trade can be drawn from the relevant trade figures. (Para. 309)

On general grounds, however, and having regard to our attitude towards the Havana Charter, we consider that it will not be to India's benefit to keep out of the General Agreement on Tariffs and Trade till the future of the International Trade Organisation is definitely known. The existing principles for negotiating tariff reduction appears to be sound and we suggest that in all future negotiations the following principles should also be borne in mind:

First, in regard to the tariff concessions to be received from other countries, India should concentrate on

(a) commodities which meet with competition from similar commodities from other countries in the world market:

(b) commodities which meet with competition from possible substitutes from other countries in the world market:

(c) manufactured commodities rather than raw materials.

Secondly, in the matter of granting tariff concessions, India should concentrate on—

(a) capital goods;

(b) other machinery and equipment;

(c) essential raw materials.

We also make three further suggestions:—

(1) First, the special export requirements of the unorganised cottage and small-scale industries, which depend on the foreign market to a large extent should be borne in mind when India enters into trade negotiations with foreign countries. It should be the particular aim of India's representatives to secure for them the maximum of tariff concessions in the foreign market and to safeguard their position against competitive imports from abroad.

(2) Secondly, a close watch should be kept on the course of trade in the GATT items, and half-yearly trade returns should be published within six weeks of every half-yearly period.

(3) Thirdly, before any fresh negotiations are started, the representatives of trade industry and other interests concerned should be consulted as regards the nature of the concessions that India may claim from the other countries and of the reciprocal concessions that the other countries, in their turn may demand of it. (Para. 310)

Chapter XXIII: Indo-British Trade Agreement, 1939

We find it difficult to assess the effects of the Indo-British Trade Agreement of 1939 on the trade between India and the U. K. because (a) the relevant trade returns are available only for a period of six months after the execution of the Agreement till the War broke out and (b) during the war and post-war years the effects of the Preferences granted and received by India were masked by the restrictions on imports and exports imposed during the war and continued in some form or other ever since.

We consider that our attitude towards this question should depend on the policy that the Government of India have already laid down in regard to Preferences and that in the light of this policy Government should initiate negotiations with the U. K. and Colonies for a review of the tariff preferences now granted to them or received by us. The continuance or otherwise of Preferences should be decided exclusively on economic considerations and on a basis of mutual interest. (Paras. 324 and 325)

Book VIII

Conclusion

In this Chapter we set out the objectives and priorities of a short-term economic policy as a basis for the formulation of a plan of action in the short period.

The objectives of a short-term economic policy are enumerated in paras. (327-328).

Defence and basic and key industries stand in a special position. Excluding these the priority should be as follows:—

(i) Schemes for agricultural improvement especially irrigation and multi-purpose project including minor irrigation works.

(ii) Industries necessary for the implementation of the agricultural programme and the construction and maintenance of irrigation and multi-purpose projects.

(iii) Schemes for increased production in industries producing basic raw material and consumption goods.

(iv) Manufacture and repair of the machinery and equipment needed by the industries in (iii).

(v) Establishment of industries complementary to the industries in (iii) to (iv) and those that will increase external economies of these industries.

(vi) *Pari Passu* with the developments mentioned in (i) to (v).

(a) encouragement of tertiary industries, and

(b) promotion of exports. (Paras. 331—334).

V. T. KRISHNAMACHARI, *Chairman*

B. N. GANGULI

* B. M. BIRLA

M. ANANTHASAYANAM AYYANGAR

** MUKHTAR SINGH

KHANDUBHAI DESAI

AMBALAL SARABHAI

D. L. MAZUMDAR, *Member-Secretary.*

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* Subject to a Note of dissent on Chapter XXI (Pages 292—296).

** Subject to supplementary notes on Chapters VIII, IX, XV, XVIII (Pages 357—369).

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SUPPLEMENTARY NOTES

By

CHOWDHRY MUKHTAR SINGH

I am extremely sorry that my illness from 27th April till 6th June did not allow me to discuss the final draft in the meeting at Bombay.

I am in agreement with the main recommendations of our report and have appended a supplementary note.

MUKHTAR SINGH,

10th June 1950.

CHAPTER VII

(1) I congratulate my colleagues that they have drawn pointed attention to the fact that as too many cooks spoil the broth, too many people on land have decreased its production. They are right in saying "that there will be an actual increase in terms of production if all the surplus labour can be withdrawn from agriculture". (Para. 97). According to an authority, which says, that if 15 per cent. of the population be shifted from food production to other pursuits, *per capita* income will be doubled and additional shifts of less than 10 per cent. will treble *per capita* income. Another estimate gives surplus male workers in agriculture as 15½ millions in British India. According to my estimate, however, the population to be diverted from agriculture to other pursuits should be as high as 25 per cent. We are told by no less an authority than the Director of Agriculture, Bengal, that by co-operative farming, out of 43 only 23 people could be given whole time employment.

I consider that the diversion of surplus population in gainful pursuits should not be delayed till rationalisation in agriculture begins.

(2) I am glad that my colleagues have recommended the formation of a Land Utilization Board. It has great many possibilities not only for more production but also to modify the climate of different regions, to bring about the regularity in rainfall and other climatic factors, to provide timber and fuel and grazing grounds, and to provide permanent funds for our Nation building activities. All types of erosions and floods will be avoided and our resources for industrial development will be increased. It will divert quite a number of rural people for the development of these places. I wish they would have developed the idea further.

The first and the foremost necessity in the development of waste land is the mapping out of the same location in different localities with a description of the type of soil and the vegetation that grows in that locality. This map should be examined by a body consisting of Agricultural, Forest and Climatic Experts who may make out suggestions for the improvement of these areas which may further be examined by the local Boards and finally by an all-India Body. After such an investigation, there should be formed Land Utilization Corporations of a semi-government nature to develop these areas and when they are developed to hand them over to local authorities or States.

If these lands are properly developed they will become a continuous source of income for educational and other rural activities just as it was done by U.S.A. which granted land to Universities.

(3) Without minimising the important research work that has been done in the country, I am of opinion, that systematic and scientific agricultural research in India has not yet begun. We do not possess the necessary data for different agricultural regions in different States describing the climate, soil conditions, both chemical and physical, production of crops, rotation of crops, agricultural practices and the like without which nothing useful can be discovered to help the farmer for adoption. (It may not be wrong to say that the Indian Expert knows more about the soil and climate and methods of production in the United Kingdom, U.S.A., and a number of other foreign countries but he knows very little about his own country.) No publication, as far as I know, of this nature has ever been attempted. So far no attempt has been made even to divide the country into local agricultural regions and no wonder if the different handicaps under which the farmer has to produce his crops are not removed. We are the oldest country and irrespective of difference in climate and other circumstances exhaustion of soil is our main problem. Exhausted soils are not easily replenished.

(4) My colleagues have correctly recommended the use of extension service like that of U.S.A. In U.S.A. there is kept a record of every inch of soil, types of climate, and possibility of agricultural production for the use of the people employed in extension service. We must see that similar data are collected here so that similar study is possible. Now our experts depend too much on generalities which take us nowhere. An advice based on generalities may sometimes be harmful rather than useful.

(5) Agriculture is the least paying industry in the world. Cereal production gives little profit and subsistence farming, which is generally followed in India, is the least paying. That being so, if the agriculturist is asked to produce what the Nation requires irrespective of economic results the Nation will have to compensate him. Unfortunately he is simply asked to produce what the people require and his own interest is neglected. Prices of agricultural commodities are fixed by the Government generally at the time of harvest without consulting his working costs. He gets no insurance against natural hazards like drought, hail storms, and the like and other factors over which he has no control. The poor man is thus forced to gamble in his profession which is not of his own choice but in which the Society has thrust him. Days are gone, and perhaps for ever, when farmers in India could call agriculture "a way of living". Now he has nothing else to do.

(6) Though the subject is very tempting yet I have neither the time nor the space nor the strength to suggest the details of agricultural policy in this Note. I may, however, say that all improvements taken together will not put in as much money into the pockets of the agriculturists as the organising of the marketing of agricultural commodities through farmers' co-operatives. It will draw out the savings from the agriculturist, if there is any; and will enthuse the farmer to produce more. The farmer loses at least 25 per cent. by selling his produce at the time of harvest and the industry and the consumer do not get any unadulterated article. Besides organised marketing will improve the farmer's business capacity and will give him an insight into the economy of agricultural production.

(7) As my colleagues have themselves remarked in the last sentence of Chapter VII the development of cottage industries is the only natural solution. We cannot absorb a large surplus population which exists on land without the development of cottage industries. I have no quarrel if my colleagues have justified the introduction of cottage industries on other grounds also. I thought and still think that in Independent India there should be no conflict of interest between rural and urban people and if there is any it will be put down by the strongest hand possible. We are all sons of the same soil and should work hard hand in hand for the uplift of our country.

It is true urban people have exploited the rural inhabitants in the past but they will not be allowed to do so any more. The present Government will not allow the rural people to remain only as hewers of wood and drawers of water. If anything can be made in cities the same can be made in rural areas, if proper training and skill are provided.

By a proper planning and guidance all types of cottage and small scale industries will be started in rural and urban areas. Let us have an open mind and think that the future organisers of cottage and small scale industries will have the sense of selecting industries for suitable places according to their best utility.

The other point I would like to stress is that there will be more whole-time workers available in rural than in the urban areas and so there will be enough scope for the small scale industries also in rural areas.

(8) My colleagues have correctly made the distinction between cottage and small scale industries but they have not considered the case of those small scale industries in which workers themselves join to form a co-operative society. Such a case must be treated more sympathetically.

(9) Further it must be clearly recommended that protection will be granted to cottage and small scale industries just on the same

lines as to large scale industries. Transport and other concessions will be made available to them.

(10) Whenever any protection case is investigated its effect on cottage and small scale industries should also be enquired into. In many Municipal Boards, Octroi, export duties etc., affect adversely cottage and small scale industries. We recommend the States should remedy such inequities.

CHAPTER IX

I have only to make three suggestions in this Chapter.

(1) In India we have been importing plants after plants of the same and the similar nature and generally of the same design. Never the industrialists have cared to produce these plants and their spare parts. They should take lesson from Japan and other countries where two similar plants are seldom imported. How an attempt can be made to copy an imported plant is a question which the Government and the industrialists should try to solve. In these days of very high prices, we cannot afford to lock up our small capital in the purchase of similar plants.

I was told in Formosa that only the plant and machinery required for four sugar factories were imported from four different countries of different designs. Then the Japanese manufactured the equipment for twenty factories themselves and incorporated all the improvements which they found worth copying and thus made the plants more efficient than the imported ones. We, on the other hand, have imported the equipment needed for all the sugar factories from abroad, and are still importing all machinery parts that we require. For a country like India it is a disgraceful spectacle which should no more be allowed to exist. How this drain can be stopped is a live issue to be solved on a higher level.

(2) All our mill stores and lubricants are imported from abroad. If any emergency arises all our industries will be brought to a standstill. It is, therefore, necessary that all large scale industries be asked to combine in a limited concern to manufacture these articles so that for any future emergency India must become self-supporting in this respect and we may not have to suffer for want of imports. In the beginning the cost of manufacturing these articles will be high but the little increase in cost must be put up with. If once we gain experience it is possible that Indian substitutes in raw material may make many things cheaper in the long run. With so many laboratories and capable technicians there should be no reason as to why we should not succeed.

(3) About consumers' prejudice government should appoint a technical board to examine Indian manufactured articles against

imported ones and those factories which do not come up to the standard should not be allowed any such concession. We cannot punish the consumer for our inefficiency. During Swadeshi days people paid gladly higher prices for Indian article but manufacturers took undue advantage of this and hence the difficulty. Industries can only survive on the patriotic spirit of our people but that spirit should not be exploited as hithertofore. If after standardising the articles there remains such a prejudice we shall have to educate the public. Such a prejudice is a point of shame for the country and has to be remedied rather than paid for.

CHAPTER XV

Para. 212.

I do not agree with the remarks that investment is passing to the classes of population who are not in the habit of saving and investing. This is seen from the fact that for Zamindari funds the Government of U.P. could not secure even 1/10 of the compensation that they have to pay to the Zamindars, and most of the little money that came from the tenantry came in the shape of ornaments to the bazaar whose sale proceeds were paid in the Zamindari Fund. There may be money with big holders of land, say 20 acres or more, but such tenants are few and far between. The farmer got a higher price for his surplus commodity but he was starved of his very bare necessities like cloth, kerosene, iron and cement and he, finding no use for the money, paid his debts. Thus he can be said to be a bit better of. To teach him the habit of saving is therefore useless. A farmer who has to depend for his expenses on the income that he gets every six months knows better thrift and saving than other people. Nevertheless if he is given cottage industries, self liquidating schemes as recommended by the re-organisation Committee (U.P.), organised co-operative marketing for agricultural products, he can be induced to save even at the expense of his current needs. Certainly he cannot and should not invest any money with those who will ultimately exploit him.

The wages of labour now vary from Re. 1 to Rs. 2 a day which were 1½ annas or 2 annas a day. Cost of cultivation has enormously increased and the price of bullock, manure, and other necessities have been up. If the cost of production is investigated it will be seen that there is no saving.

Para. 217.

I maintain that India should learn from the examples of Russia and Japan and adopt the well known methods that these countries adopted for their industrialisation. To elucidate this, I append an extract from an article written by me (*vide addendum* to this note).

Paras. 220—222.

I am not against foreign capital provided it comes on our terms and not for consumers' goods. I shall welcome even loans provided we can pay for them but perhaps none of them may be needed provided we work as a team and with a drive and create enthusiasm in every child of the country. To import plant after plant for the manufacture of different things would not industrialise the country and we may rest assured the industrialists will not risk their money in ventures of doubtful character. We shall have to learn through the import of foreign technicians and will have to pay very high salaries to them. It is then only that we shall be able to manufacture plants in our own country. If Russia could do it we can certainly do it provided there is the will for it. Our consumer goods will be made in cottage and small scale industries and we shall have to remain satisfied with what we produce. There will be no inflation as savings will be utilized for the technicians, cottage industries, tools and machines and the like.

Para. 229.

I agree with my colleagues that there is need for specialized service but the way in which public services are recruited today will have to be changed. We shall have to keep a record of every student who joins an elementary school up to the date he leaves his education giving the details of his aptitude, character, pluck and tactfulness and the like. We must begin this immediately in every class. Public Service Commissions or other Commissions appointed for recruitment to services should go through this record instead of relying on 3 or 4 well known persons for character certificates. Unless this is done services will not improve. Higher education should not be the only criterion for service. I would refer here to page 279 sub-para. (5) of the Report of the University Commission:—

> "India inherited a public administration process made up of a vast accumulation of obsolete bureaucratic routine, one of the chief principles of which seemed to be that responsible discretion should not be delegated, but should be tightly held at the top. The admirably high quality of public administration in England was scarcely transmitted to Indian administration. Comparing the operation of this cumbersome, wasteful system with modern, efficient administration, it seems possible that with radical improvement of administration the entire public work of India might be accomplished with less than half its present expenditure. What such a change would mean in relief from financial pressure and in extension of such vital services as education, power development, the extension of irrigation, agricultural production, and

> in other ways, can scarcely be imagined. Many factors must enter into such a change, but they are inter-related, and an improvement in one factor tends to the improvement of others. For instance, cumbersome, involved wasteful procedures lead to a sense of irresponsibility and to a lowered ethical tone. On the other hand, clean cut, intelligible and effective procedures, with clear and reasonable focussing of responsibility, sharpens the sense of personal responsibility, and gives support to ethical standards."

In business concerns, an ordinary man can become the Manager if he has the capacity while a more highly educated person may remain on the same salary on which he joined for the whole of his life. Unfortunately such a thing is not possible in Government service. High education helps only a little in the beginning. Find out the capacity and you will have better personnel in service. As long as cadre seniority, etc., are observed in Government services, there is no hope for a capable man to help the nation.

CHAPTER XVIII

Para. 246.

There should be a systematic investigation of water-ways and the question of making rivers navigable should be examined. We have no other alternative source of cheap transport than railways though water transport is considered the cheapest transport. In days of emergency we cannot rely on one type of transport. There is further reason for the development of water-ways. All imported articles pay the same freight to any Indian port and thus get as many distributing centres as there are ports. It is a privilege which is not available to an indigenous article, which sometimes explains the establishment of uneconomic units. Further during the war or any other like emergency, if the Railway system breaks down our economic life may be endangered.

Addendum to Chowdhry Mukhtar Singh's Notes

[Extracts from an earlier article]

Industrialization—A Historical Review

Socially speaking, Russia may have a set up different from ours but we have nothing to do with that point at present. We believe in individual development and we may not agree therefore in dictatorship and regimentation of the people on a big scale. It has to be admitted, however, that Russians are the latest people who have industrialised the country on the most modern scale and only in about 12 years. Maurice Dobb, the well known historian, says, "Russia affords a unique example of the transformation of a formerly backward country to a country of extensive industrialisation and modern technique at an unprecedented tempo: a transformation unaided by any considerable import of capital from abroad, but effected under the guidance and control of a national economic plan, instead of in the conditions of laissez-faire and capitalist enterprise which characterised the classic industrial revolutions of the past. As such it seems likely in turn to become the classic type for the future industrialisation of the countries of Asia".

First five years plan was started in 1928 and by the end of the plan in 1934 there were 200,000 students in higher technical colleges of University, some 900,000 receiving education in secondary technical schools, while there existed factory schools and courses capable of handling a million workers a year. Russians believed in practical training and they gave the first priority to this activity in their programme. They did not care to produce consumer goods but concentrated on heavy industries like metal, power, etc. It is why only in 10 years Russia became the largest producer of tractors and railway locomotives in the world. Before the plan was started there was not a single power station of 10,000 k.w. capacity but at the end of five years plan it had 10 power stations whose capacities ranged from 10,000 to 31,000 k.w. Russia was in the midst of her third plan when the World War II started and Germany attacked Russia. How perseveringly and resourcefully they gave a fight to this mighty foe was admitted both by the English and the Americans. To bodily take away factories after factories from one sector to another and to start them working while fighting at the front was a wonderful feat. Their persistent efforts and well arranged warfare on the most scientific basis and with the most up-to-date weapons were something which forced the whole world to believe in their industrial development. Though they had huge areas full of material resources yet they were all untapped and unutilised. They had only a few factories producing ordinary consumer goods. They were already poor, but World War I made them poorer still. They had done

away with the Czarist regime but they were not able to reorganise the people. They were poor and nobody would advance them loans. Their treasury was empty. People could not be taxed. Most of the countries were unsympathetic on account of their social ideas. With all these handicaps they decided to industrialise their country. How could they do it, and how they did it is really a miracle. It is true that in these efforts many people had to be kept on limited rations, and the need of consumer goods had to be restricted. All people were forced to work hard to produce whatever they could. "Work in U.S.S.R. became a matter of honour, glory, valour and heroism". Whatever they could produce was exported to foreign countries after satisfying their minimum needs. Most of the money so obtained was used in the payment of salaries to technicians from abroad. Whatever tools, equipments and machinery were absolutely essential to build capital goods were purchased out of their slender resources. "The means of industrial construction had to be found almost exclusively from internal resources". Technicians were asked to work at industrial plants with the help of illiterate people and without skilled labour. It is true that they employed sometimes ten men where one was needed, but they did not only so utilise their labour which was their only mainstay, but trained many people at a time. Thus their standard of efficiency began to be raised. In this way, plants after plants were made in their own country and their capital needs were started to be built by and by. They renounced the long deferred hope of enjoying plenty and comfort, that the surplus energy of the society might be diverted to the construction of capital equipment—rail roads, power plants, machinery, factories of all kinds. In the meantime they must continue practically on war basis. According to the author of Economic Development in Europe, "with all the faults and failures which marked the history of the project, the success of the Government in diverting energy to the accumulation of capital can be described as nothing less than amazing". If they would have started like us, with the production of consumer goods first, they would have always been in the same position in which we find ourselves today. They knew that to import machinery from abroad and to start industries is not industrialisation.

We have today better education, more prosperous people, better engineers, better technicians, better organisers and better communications than Russia had in 1928. If that country could industrialise itself during a period of 15 years we can certainly do the same provided we can create the same urge and drive amongst our Government and amongst our people.

It may be argued that we are a democracy while Russia was

thing, while in the democracy these things cannot be adopted. Does it mean that the entire capitalistic world with sympathies towards India cannot achieve what Russia could achieve by sheer dint of communism? Does this not mean the admission of defeat of capitalistic society against dictatorship? I still believe and I am convinced that if a proper atmosphere and spirit are created we can do the same as Russia did.

Coming to Japan, her achievements are also wonderful though they took more time than Russia. People were too many for that small island and they were poor and illiterate. Their problem was similar to ours, in most respects. The building of Japan was due to those young men who went out at their own strength, who earned and learnt in foreign countries and when they came back they did not start their factories to earn the reward of their labour but started schools on a pittance to train thousands of engineers and chemists though of a much lower order. These people with a technical background started industries in their own hamlets and made their own tools keeping in view the principles involved in efficient machines. They could not afford to purchase capital goods from abroad and whenever a complicated machine was imported the like of it was made in Japan the next time. They divided big factories or complicated machines into single processes small implements and adapted them to their needs so that they may be used on a small scale. They first started with thermal electricity but soon produced hydro-electricity and made it available in the most interior corner of their country. They soon began to manufacture their own turbines and other accessories needed for electrifying a country. They could soon sell their energy to an ordinary consumer of less than 50 H.P. at the rate of 6 pies a unit and this cheap power revolutionised the whole country. Today they are producing big plants where small scale ones will not work efficiently but still cottage industries are their mainstay. It may not be wrong to say that 80 per cent. of all consumer goods made in Japan are made in cottages. Before the War they could undersell in every market of the world unless tariff walls were raised against them. Japan proved that with judicious working mass production economy in a factory can be defeated by working in cottages and on a small scale. Their big plants also were far smaller than similar plants in U.S.A. and England.

We can adopt their methods as Japan is an Asian country and its tradition and culture are similar to ours. We are in a position to import their small contrivances in hundreds and thousands and we can also employ their technicians interested in the development of cottage industries and production, intelligent engineers and chemists. We can understand their organization. If we start on those lines people now living in rural areas can soon be diverted to industrial

pursuits and the articles so produced can be exported to earn foreign exchange to purchase capital goods which we cannot immediately produce.

I append herewith some of the items which Japan was exporting in 1935. Their perusal will show that if properly organised there is a demand in the foreign markets of articles that can easily be made in our rural areas Peas, bean seeds, soya beans, bamboo shoots, lufa, fruits, shell buttons, towels, handkerchiefs, fish nettings, brushes, cosmetics, grass stuffed beddings, grass mats, ropes, etc., were some of the items for export.

After giving a small description of the historical development of a few important countries and giving the main principles which will be useful for the development of our country, I would like to summarise them. From England we can make full advantage of their organisation, from Germany we can take their technicians, from Russia we can take their drive and spirit of work and their method of priorities and from Japan their cottage industries If we combine all these things together and start in full swing, we can change our country in the shortest period possible

Annexure to Addendum

Exports from Japan

Tobacco	
Peas	Crore Yen ½
Bean seeds	Lacs Yen 12
Mushrooms	33,11,598
Soya bean	
Onions	Yen 1860000
Bamboo shoots	Yen 16000
Heater	1,25,000
Lufa	3,12,000
Different types of fish	7 10,000 1,41,37,300 1,76,94,000
Artelies made of fishes	1,68,73,000
Mandarin	30,96,396
Other fruits	24,48,446
Tangles and sliced tangles	32,97,054
Salomen	1,61,92,255
Sardine.	55,68,742
Shell buttons	6,47,000
Cement	80,81,777
Cotton handkerchiefs	56,42,618
Towels	64,77,071
Fish netting	48,46,836
Banyan and pyjamas	4,27,20,240
Socks	1,29,05,427
Iron rounds	1,16,45,607
Enamelled ware	94,16,467
Lacquered wooden ware	21,13,884
Brushes	57,11,4' 1
Menthol	Lacs 54
Dental creams	6,15,880
Face powder	8,99,295
Toilet water Face cream Hair oils	6,32,717
Stuffed bedding Datsu type	Yen 928310
Grass stuffed bedding	13,67,789
Cotton waste bedding	4,42,893
Grass mats	2,14,879
Mat handles	26,19,618
Tatami mats	6,72,383
Ropes	29,71,664
Umbrellas cotton	17,09.227
Umbrellas silk	3,59,853
Umbrella handles wooden	5,09 039

APPENDICES

APPENDIX I

No. 1-Fis/A (5)/49

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE

FISCAL COMMISSION

Administrative Intelligence Room,
Queensway, New Delhi, the 25th June, 1949.

From

SHRI D. L. MAZUMDAR, I.C.S.,
Member-Secretary, Fiscal Commission,
New Delhi.

To

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Sir,

I am directed by the Fiscal Commission to forward herewith a copy of the questionnaire drawn up at its first session held in Delhi from the 13th to the 16th June, 1949. As you are aware, the Commission was constituted by the Ministry of Commerce, Government of India, in their Resolution No. 34-T(37)/48, dated the 20th April, 1949, with the following terms of reference:—

"(1) To examine in consultation with all the interests concerned, the working of the policy of the Government of India with regard to the protection of industries since 1922 when the last Fiscal Commission reported; and

(2) To make recommendations as to—

(a) the future policy which Government should adopt in regard to protection to and assistance of industries, and the treatment and obligations of the industries which may be protected or assisted.

(b) the machinery required to implement such policy; and

(c) any other matter having a direct bearing on the effective implementation of this policy.

(3) In considering these issues the Commission will be free to distinguish between short and long term aspects of the problem and also advise in the light of the country's requirements, how far it would be desirable to undertake international obligations of the kind

involved in the General Agreement on Tariffs and Trade or the Charter of the International Trade Organization."

Subsequently, an addition was made to these terms of reference, and the Commission was asked to examine from the point of view of India's interests, the effect of the preferences accorded to some categories of imports from the United Kingdom, under the Indo-British Trade Agreement of 1939. In their letter No. 34-T(37)/48, dated the 24th May, 1949 the Ministry of Commerce further desired that the Commission's recommendations on the desirability of undertaking international obligations of the kind involved in the General Agreement on Tariffs and Trade and Charter of the International Trade Organization should be submitted to Government in advance of their main report and not later than the 15th August 1949.

2. In view of this request the Commission has considered it desirable to divide the questionnaire into two parts—Part I covering all subjects included in the terms of reference, except the item relating to the General Agreement on Tariffs and Trade and the Charter of the International Trade Organization which has been dealt with exclusively in Part II.

3. The scheme of the questionnaire follows very closely the main heads of the terms of reference. Part I consists of eight Sections. Section A(i) deals with changes in the general agricultural and industrial situation in the country since 1922-23 when the first Indian Fiscal Commission reported, while Section A(ii) deals with some problems of small scale and cottage industries, which have assumed increasing importance in the context of the present difficulties of large-scale industries and of the role indicated for small-scale and cottage industries in the Government of India's Industrial Policy Statement of the 6th April, 1948. The Commission's investigations must necessarily be carried out in the context of these changes in the economic background. Sections B and C are self-explanatory, while Section D deals with the main factors of which account must be taken in the formulation of an appropriate Fiscal Policy. Section E deals with the non-fiscal measures which have a direct bearing on the success of any fiscal policy that Government may adopt—particularly in view of current physical shortages and bottlenecks which impede production and distribution. Section F covers the issues arising out of preferential customs duties. Section G is self-explanatory, while Section H deals with problems of organization, methods and procedure that are incidental to the effective implementation of any policy.

As has already been mentioned, Part II of the questionnaire covers the problems arising out of the enforcement of the General Agreement on Tariffs and Trade and the issues involved in the acceptance of the commitments implicit in the Havana Charter on World Trade and Employment.

4. For the convenience of the average reader, it has been considered desirable to preface the questions in Sections B, D and F of Part I and in Part II of the questionnaire with short introductory notes which, it is hoped, will facilitate the understanding of the nature of the issues involved in these questions.

5. As has been explained above, the questionnaire closely follows the Commission's terms of reference and has been designed to cover the whole field of enquiry. It is not expected that all those who may be pleased to send their replies should attempt to answer all the questions. Similarly, if any correspondent wishes to give his views on any points relevant to the enquiry which may not have been included in the questionnaire, it would be convenient if such points were dealt with in a supplementary memorandum. In any case, the Commission will welcome statements or memoranda on any relevant point whether included in the questionnaire or not.

6. For the reasons mentioned in para. 1, the replies to Part II of the questionnaire may be forwarded by the 25th July at the latest. The replies to Part I of the questionnaire may be forwarded by the 25th August 1949. The Commission recognizes that the time allotted for the submission of the replies—particularly in respect of Part II of the questionnaire—is rather short, but the issues raised in the questionnaire as a whole have been often debated in the past. The Commission, therefore, trusts that the individuals and Associations to whom the questionnaire will be addressed will not be unduly handicapped by the short notice given to them and will be able to send in their replies to the questions by the prescribed dates.

7. It will facilitate the work of the Commission if the individuals or Associations to whom the questionnaire is addressed could indicate along with their replies whether they would like to appear before the Commission at such place and time as the Commission may conveniently fix at a later stage of its enquiry.

8. It will be appreciated if the Associations, etc. to whom the questionnaire is addressed, could send 15 copies of their replies in order to facilitate their consideration by the Commission. All replies and all correspondence relating to the questionnaire and the work of the Commission may please be addressed to:—

The Member-Secretary, Fiscal Commission, Ministry of Commerce, Government of India, Administrative Intelligence Room, Queensway, New Delhi.

Yours faithfully,

D. L. MAZUMDAR,

Member-Secretary.

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE

FISCAL COMMISSION

Questionnaire

PART I

SECTION A (i)

Introductory—Changes in the Economic Background since 1922-23.

Q. 1. Do you consider that the economic background in the country has so altered since the Indian Fiscal Commission reported in 1922 that it necessitates a fundamental change in the approach to the problems with which the present Commission is concerned?

Q. 2. Will you list the principal changes in our agricultural situation in respect of (a) production, (b) consumption, and (c) international trade in agricultural commodities?

Q. 3. To what extent, if any, have these changes affected or are likely to affect in future, the pace and direction of our industrial progress?

Q. 4. What are the basic improvements in our agriculture and mining that you would consider urgently necessary as a support for any policy of intensified industrialisation?

Q. 5. What are the main directions in which our industrial development has progressed since the Indian Fiscal Commission reported in 1922? Please give your appreciation of the same.

Q. 6. To what extent do you think our industrial development still falls short of our essential requirements? Would you list our main deficiencies under the following heads—

(a) Lines of manufacture which you consider essential;
(b) Volume of production;
(c) Overhead and operative costs;
(d) Quality of management;
(e) Supply of capital;
(f) Availability of raw material, fuel and power;
(g) Availability of high grade technical ability;

(h) Supply of skilled and unskilled labour;

(i) Efficiency of labour.

Q. 7. (a) Please give a broad analysis of the present position of small-scale and cottage industries in the economy of this country.

(b) What should be the relations between—

(i) small-scale and cottage industries and agriculture; and

(ii) small-scale and cottage industries and large-scale industries?

Q 8 Do you think small-scale and cottage industries have a significant role to play in the economic development of our country (a) under present circumstances and (b) in the long run?

SECTION A (ii)

Q 9. Please enumerate the small-scale and cottage industries which you would like to develop—

(a) as subsidiary to agriculture;

(b) as supplementary to large-scale industries;

(c) as other independent units of production.

Q 10 Which cottage industries you consider specially suited for export purposes?

Q 11. Do you consider that protection to large-scale industries has in any way affected small-scale and cottage industries? If so, please state how and to what extent they have been so affected.

Q 12. What in your view are the main handicaps from which small-scale and cottage industries suffer at present? What steps would you recommend for the removal of these handicaps—particularly with regard to—

(a) the supply of raw material;

(b) supply of technical skill;

(c) their technique of manufacture;

(d) their structure and organization;

(e) supply of finance;

(f) marketing facility;

(g) any other form of assistance; and

(h) possible competition with large-scale industries?

Q. 13. What steps should be taken to ensure that the interests of small-scale and cottage industries are safeguarded, when trade agreements with foreign countries are negotiated?

SECTION B

Policy of discriminating protection and its application since 1923.

Fiscal Commission.—In recommending a policy of discriminating protection, the Indian Fiscal Commission of 1922 had observed that discrimination should be exercised in the selection of industries for protection so as to make the inevitable burden on the consumer as light as was compatible with the due development of industries. Accordingly, the Commission laid down that an industry, seeking protection, should satisfy the following three conditions:—

(1) It must be one possessing natural advantages such as an abundant supply of raw material, cheap power, a sufficient supply of labour and a large home market;

(2) It must also be one which, without the help of protection, either, is not likely to develop at all, or is not likely to develop so rapidly as is desirable in the interest of the country; and

(3) Finally it must be proved that the industry will eventually be able to face world competition without protection.

The Commission also recommended some "supplementary measures" such as appropriate railway rates policy, reduction of coastal shipping rates and anti-dumping measures.

To implement the above policy, the Commission recommended the constitution of a permanent Tariff Board.

2. *Protection granted between* 1924—39.—The Government accepted the main recommendations of the Commission but instead of appointing a permanent Board appointed *ad hoc* Boards for the investigation of the claims of protection to different industries as and when necessary. The first Tariff Board was appointed in 1923 to enquire into the claims of protection to the Steel industry. Between 1924 and 1939, about 50 cases were referred to the Board for investigation. It included fresh applications for protection, applications for the continuance and revision of protective duties, removal of duties on raw materials and adjustments of tariff inequalities. In 1939 the following eight industries were under the protected list:—

1. Iron and Steel.
2. Cotton Textiles.
3. Sugar.
4. Paper.

5. Magnesium Chloride.
6. Sericulture.
7. Gold and Sliver Thread and
8. Artificial Silk and Cotton and Artificial Silk Mixed Fabrics.

During the last war protection to these industries was continued under the Protective Duties Continuation Act. In 1947, on the recommendation of the Tariff Board, protection to Iron and Steel Cotton Textiles and Paper industries was withdrawn. In 1949, Gold Thread and Magnesium Chloride industries also were similarly removed from the protected list. Of the industries which were in the protected list before 1939 only sericulture, artificial silk and mixed fabrics and sugar industries still remain in it.

3. *Safeguarding of Industries Act.*—In 1932-33, the Government of India received representations from numerous small industries asking for tariff protection against the competition of foreign and particularly Japanese goods which were being imported at abnormally low prices. An Act known as Safeguarding of Industries Act, was, therefore, passed by the Legislative Assembly in April, 1933. This Act empowered the Governor General in Council to impose additional duties in all cases in which he was satisfied that foreign goods were being imported at such abnormally low prices as to threaten the existence of an established industry. No action could however be taken against Japanese imports under this Act as it was later discovered that it went against the spirit of the provisions of the Indo-Japanese convention. The Government, therefore decided to impose the standard rate of specific duties, instead of the then existing *ad valorem* duties, on all such commodities as were being imported at abnormally low prices, and the Indian Tariff Amendment Act, 1934, was passed accordingly. In fixing the amounts of the specific duties the object in view was to restore as far as possible the fair competitive conditions which prevailed in the period before the depreciation of the yen.

4. *War-time industries.*—During the war, with the cessation of imports, many new industries were established in India. As early as 1940, the Commerce Member announced on the floor of the Assembly that industries which would be started during the war would be protected if and when necessary, provided they were organised on sound lines. In April 1945, the Government of India announced its industrial policy and immediately after that, a Tariff Board was constituted for a period of two years to investigate into the claims for protection or assistance to war-time industries. The terms of reference were as follows:—

Tariff Board, 1945, *and Terms of Reference.*—(1) That it (industry) is established and conducted on sound business lines; and

(2) (a) that having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost it is likely, within a reasonable time, to develop sufficiently to be able to carry on successfully without protection or State assistance; or

(2) (b) that it is an industry to which it is desirable, in the national interest, to grant protection or assistance and the probable cost of such protection or assistance to the community is not excessive.

As the long term tariff policy of the Government had not been finally decided the Board was to recommend protection as an interim measure for a period not exceeding three years.

5. The total number of cases which were referred to the Board was 49. Within a period of 18 months, it reported on 42 cases including four cases of industries which were protected before the war and whose claim for continuance of protection the Board was asked to examine.

6. *Tariff Board,* 1947.—In November, 1947, the Board was reconstituted for a period of three years with the following two additional functions:—

(i) to report to Government as and when required, factors that lead to increase in the cost of production of Indian manufactured goods as against imported articles; and

(ii) to advise Government as and when required on measures whereby internal protection may be secured on the most economical basis.

During the period 1947—49, the Board was asked to examine the claim for protection of those industries which had not yet been fully examined by the previous Board and also a few new cases. The Board was asked to examine the need for continuance of protection to pre-war protected industries which were still in the protected list and also to the war-time industries, the period of whose protection was due to expire in 1949. During this period, the Board also undertook four important price enquiries. At present, there are about forty industries in the protected list.

7. *Additional Functions of the Tariff Board.*—As more and more industries came under the protected list, Government considered it necessary that continuous watch over the progress of protected industries should be kept by the Tariff Board. Accordingly a resolution was issued on 6th August, 1948 in which the Tariff Board was authorised to conduct enquiries as and when necessary on the effect of the protective duties or other means of assistance granted and advise

Government the necessity or otherwise of modifying the protection or assistance granted. In this resolution the following additional functions were also given to the Board:—

(1) to enquire, as and when required by Government, into the cost of production of a commodity produced in the country and to determine its wholesale, retail or other prices, and to report on the same;

(2) to recommend to Government, as and when required, measures necessary for the protection of India's industries from dumping from abroad;

(3) to undertake studies, as and when necessary, on the effects of *ad valorem* and specific duties and tariff valuations on various articles and the effects of tariff concessions granted to other countries; and

(4) to report to Government, as and when necessary, on combinations, trusts, monopolies and other restraints on trade, which may tend to affect the industries enjoying protection by restricting production, or maintaining or raising prices and to suggest ways and means of preventing such practices.

Q. 14. The Fiscal Commission appointed by the Government of India in 1921 recommended "that discrimination should be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as is consistent with the due development of industries". On the strength of this basic principle the Commission decided that an industry seeking protection or assistance should satisfy the three conditions enumerated in paragraph 1 of the note. Besides tariff protection the Commission recommended also certain non-fiscal measures. Are you satisfied that the policy recommended by the Commission was fully implemented between 1923—1939? If not, please enumerate the main deviations from the policy.

Q. 15. Do you find any defects in the working of this policy? If so, please give datails with suitable examples.

Q. 16. Do you agree with the specific conditions laid down by the Commission that normally protection should be accorded to an industry only if the conditions referred to in Q. 14 are satisfied?

Q. 17. Do you consider that the "supplementary measures" for the protection of, and assistance to, industries as recommended by the Commission in Chapter VIII of their Report were adequate and well conceived?

measures needed for developmental purposes as closely as possible with the principles of multi-lateral trading laid down in Chapter IV. Article 13 in Chapter III in itself does not specify the protective measures that a Member country can adopt for developmental purposes. It mainly deals with them as exceptions to the principles of commercial policy enunciated in Chapter IV which may be justified for the development of industries. We have already discussed in the previous paragraph the principles of commercial policy and commitments of Member countries under it and its exceptions. For purposes of our analysis in this Chapter we shall divide state assistance under the following heads: Tariffs, Subsidies, Quantitative Restrictions and Mixing Regulations.

(1) *Tariffs.*—The principal tariff commitment of a Member is contained in Article 17, under which each Member is required, on request by any other Member and subject to the procedural arrangements laid down by the Organisation (*i.e.*, selective product-by-product basis, which is mutually advantageous), to negotiate for a substantial reduction of the general level of tariffs and the elimination of preferences. To this, as we have already pointed out, there are three exceptions. In the light of this Article and its exceptions, it may be stated that the tariff can be used without reference to the I.T.O. for protective purposes except where a Member country has agreed to a reduction or binding of duty. In cases where the duties are reduced or bound by international agreement, release may be obtained from the obligations through the procedure laid down in Article 13, paragraph 3. Further, for the purpose of economic development, preferences may be given to particular countries if it can be proved that these are essential for developmental purposes.

(2) *Subsidies.*—There is no objection to production subsidies.

(3) *Quantitative Restrictions.*—The purpose of the Charter would be defeated if quantitative restrictions were freely permitted. Hence Article 20 forbids quantitative restrictions, but important exceptions have been made to this general rule. We have already discussed them in detail. So far as economic development is concerned, the exceptions contained in Article 13, para. 7, are the most important. Under them industries started during the war and processing industries can be protected through quantitative restrictions. It may be also possible to use quantitative restrictions if it can be proved to the satisfaction of

other Member countries that this form of protection is economically advantageous for the development of any particular industry.

(4) *Mixing Regulations.*—They have been already discussed in paragraph 282 *ante.*

In brief, under the provisions of the Charter, tariffs can continue to be used for protective purposes, subsidies can be resorted to if Government revenues permit it, quantitative restrictions can be used in certain specific cases but mixing regulations not already in force are prohibited.

It should, however, be noted that *abnormal* imports of a commodity or its substitute, which threaten the establishment, development or reconstruction of a domestic industry or a branch of agriculture would justify the adoption of all these and such other measures as the situation may require. In such cases, however, a Member-country must give notice to the International Trade Organisation of the measures it proposes to take.

The International Trade Organization

289. The chief organ of the I.T.O. is the Conference which will normally meet once a year. The Conference will elect an Executive Board of 18 to carry on day to day organization. The final authority of the I.T.O. is vested in the Conference. In exceptional circumstances not elsewhere provided for the Conference has the right to waive any obligation imposed upon a Member by the Charter by a 2/3 majority vote. Out of the 18 seats on the Executive Board, 8 are reserved for Members of Customs Unions of chief economic importance. In assessing economic importance, the most important factor to be taken into account is the volume of a country's international trade. In the Executive Board, as in the Conference, each Member has one vote.

One article in this Chapter defines the relations of I.T.O. with the United Nations. It lays down that the I.T.O. should not take any action which might involve judgement on essentially political matters and that any subject which has been already brought before the United Nations in accordance with the provisions of the United Nations Charter shall be deemed to fall within the scope of the United Nations and not of the I.T.O. The purpose of this provision is to ensure that its activities are carried on without the intrusion of politics.

(iii) the optimum utilisation of indigenous raw material and bye-products?

Please illustrate with examples drawn from your knowledge or experience.

Q. 26. Has the protection or assistance received by our industries induced any substantial increase in the supply of—

(a) technical personnel required by the industries;

(b) skilled labour;

(c) semi-skilled labour;

(d) a stabilized industrial labour force?

Q. 27. To what extent, if any, has industrial research been initiated and fostered by the protected and assisted industries?

Q. 28. Do you consider that the revenue tariffs imposed in the past have had any appreciable effect on the growth and development of our industries and on the course of our export and import trade? If so, would you illustrate your finding with some examples drawn from the trade or industry of which you have knowledge or experience?

Q. 29. (a) What were the broad effects of the tariff policy pursued by Government between 1923 and 1939 on the volume, character and geographical distribution of our (i) import, and (ii) export trade?

(b) To what extent was the relative importance of our domestic and foreign trade affected by this policy during this period?

Q. 30. Do you think that the development of any of the protected industries was hampered by the policies pursued or the measures adopted by Government with regard to matters other than protection? Please give examples.

SECTION D

Factors in the formulation of a new Fiscal Policy.

IMPORT CONTROL POLICY

Import trade control was first introduced in May, 1940, under the Defence of India Rules. Only 68 items were included in the first instance and they were mostly consumer goods. By August 1941, practically all descriptions of imported articles were brought under control and the office of the Chief Controller of Imports was set up in Delhi.

The import control policy was then governed by three main considerations, *viz.*, (i) the necessity for conservation of dollar and other hard currency resources; (ii) the shortage of supplies of goods in the exporting countries and (iii) the paucity of shipping space. About the middle of 1942, shipping considerations began to dominate all other factors in the administration of import trade control. By the end of 1943, the shipping position began to improve; but this was offset by procurement difficulties which were rapidly becoming the principal problem on account of the increasing shortage of supplies in the exporting countries.

2. With the cessation of hostilities, the shipping difficulty largely disappeared and the supply position also eased. In 1946, Government considered that import control could be sufficiently liberalized to meet the pent up demand for plant and machinery and consumer goods in the country. The system of Open General Licence was extended to a large number of commodities imported from all sources. The total value of licences issued during the 12 months ending March 1947 was about a thousand crore of rupees. Although the licences issued were not fully utilized, the result of this policy was to impose a heavy demand on the country's foreign exchange resources.

The entire position was reviewed early in 1947 and it was decided to limit imports to the current earnings of exports plus the transfers from the Sterling Balances as fixed by mutual agreement with the United Kingdom Government. Since then import control has been linked closely with foreign exchange control and the balance of payments position. Every six months foreign exchange resources are reviewed and the import programme for the next half year is so drawn up as to ensure that the disbursement of our foreign exchange is kept within these limits.

3. After the termination of the war, import control was continued by the Emergency Provisions (Continuance) Ordinance of 1946 for one year. As it was found necessary to continue control over imports and exports, the Import and Export (Control) Act was passed in 1947 giving powers to the Government to exercise the controls till the 24th March 1950. In September, 1948, an Import Advisory Council consisting of representatives of Trade Associations, two members of the Constituent Assembly and four non-officials representing interests not otherwise adequately represented, was set up with the Honourable Minister for Commerce as Chairman. The Council advises the Government in matters relating to the operation and administration of Import Trade Control. The Council meets every three months. A joint Import and Export Advisory Committee has also been set up to advise the Ministry in matters of common interest to the two bodies.

4. For the purpose of licensing, goods are divided into the following main categories:—

(a) goods under Open General Licence for import from soft currency countries;

(b) goods which are licensed freely from dollar areas;

(c) goods which are licensed freely from soft currency countries;

(d) goods for which no licences are granted from any source;

(e) goods for which no licences are granted from dollar or hard currency countries;

(f) goods for which import licences are granted within overall monetary limits from dollar and hard currency countries; and

(g) goods which are licensed within overall monetary limits from soft currency countries.

In drawing up these lists and in fixing the monetary ceilings due consideration is given to the more essential needs of the Indian economy and the need for the maintenance and development of industrial production. The essential consumer needs are also taken into account. High priority is given to the import of capital goods.

5. For the purpose of administration of the system of import licensing, the controlling authorities for the issue of licences vary in respect of different commodities. Licences for Part I (Iron and Steel) and Part VI (Machine Tools) are issued under the direction of the Industry and Supply Ministry, goods in Part II (Electrical goods) are licensed by the Deputy Chief Controller of Imports, Calcutta. The goods covered by Part III (Textile Machinery) are licensed by the Deputy Chief Controller of Imports, Bombay; those covered by Part IV (consumer goods) are licensed by the Import Trade Controllers in Calcutta, Bombay and Madras and those covered by Part V (raw materials and heavy machinery) are licensed by the Chief Controller of Imports, New Delhi. Certain items in Part IV are also licensed at headquarters by the Chief Controller of imports.

6. Licences are granted for each six monthly shipping period, namely, January-June and July-December. The validity of the licences for heavy electrical plant and other machinery goods is for a period of three years.

EXPORT CONTROL POLICY

Control over exports of commodities was introduced in India at a very early stage in the war. The list of items included at first was very small and the control notifications were issued under section

19 of the Sea Customs Act of 1878. The list was, however, gradually expanded and ultimately it became necessary to take special powers under the Defence of India Rules. The first notification under the Defence of India Rules controlling exports was issued in May, 1940. During the war, the main objectives of export control were (i) to conserve essential supplies for civilian consumption in the country; (ii) to prevent essential commodities from reaching the enemy and (iii) to secure fair distribution of available exportable surplus to the allied nations for the successful prosecution of war.

2. With the cessation of hostilities, the last two objectives lost their importance and since then Government's policy has been to liberalize export control consistent with our internal requirements. At present de-controlled atricles number about 250. Three factors kept in view in framing the export control policy are (i) liberalization of exports, to secure larger foreign exchange required for food imports and also for the import of industrial raw materials and capital equipment vitally needed for industrial rehabilitation and development; (ii) conservation of dollar and hard currency resources and (iii) prevention of the practice of re-export of Indian products from other countries to hard currency areas, with consequent loss of dollar exchange and of bargaining strength in trade negotiations relating to commodities in critical shortage all over the world.

3. At present control over the export trade is exercised by the Government under the Import and Export (Control) Act of 1947. An Export Advisory Council has also been constituted to advise Government on the working of the export control policy. The Council meets every three months. A joint meeting of import and export advisory councils is also held to discuss matters of common interest.

4. The articles controlled are grouped into four parts, *viz.*, 'A', 'B', 'C' and 'D'. Part 'A' includes commodities the supply position of which is very tight. As a general rule no export licences are granted for these commodities. Articles included in Part 'B' are food items and they are controlled by the Ministry of Food. Articles included in Part 'C' are those which are important from the point of view of Government supply or domestic requirements. Exports of these items are controlled by the Ministry of Industry and Supply. Articles controlled by the Ministry of Commerce are included in Part 'D':

5. In regard to Part 'D' commodities, export is generally allowed on the basis of the established shippers principle (*i.e.*, shippers who have exported a particular commodity to the country concerned during the basic period fixed for the purpose). A small percentage of the approved quota is also reserved for exports by new comers in the trade.

Export licences are normally endorsed as valid for a period of three months from the date of issue, except in the case of cotton piece-goods in which case they are valid for six months.

Q. 31. What in your assessment is the relative importance of the main changes in the pattern of our foreign trade which have taken place in the periods—

(a) 1939-45;

(b) 1946-49?

Q. 32. Would you briefly analyse the effects of the (a) legislative, and (b) administrative measures relating to the control and regulation of our foreign trade which Government have had to adopt during these periods on—

(a) our import and export trade; and

(b) the growth and development of our industries?

Q. 33. To what extent have these changes affected the fundamental premises on which the recommendations of the Indian Fiscal Commission 1921-22 were based? Please illustrate your reply with examples drawn from the trade or industries with which you may be concerned or about which you may possess adequate knowledge?

Q. 34. In the light of your analysis and appreciation what is the relative importance you would attach under present day conditions to governmental measures for the promotion of our trade and industry which may be broadly classified under the following heads:—

(a) Fiscal measures;

(b) Non-fiscal measures?

Q. 35. Would you indicate the extent to which an appropriate tariff policy can further our foreign trade and assist in the development of our industries?

Q. 36. What, in your judgement, should be the objectives of tariff policy in the short period?

Q. 37. The minority report of the Indian Fiscal Commission 1921-22 expressed the view 'that there should be an unqualified pronouncement that the fiscal policy best suited for India is protection'. Do you agree with this?

Q. 38. If so, what principles and conditions would you lay down for regulating the grant of protection or assistance?

Q. 39. Would you, in the application of the formula or principles, if any, or in the administration of the policy in general, like

special consideration or priority to be given to any particular classes of industry? If so, please name the classes.

Q. 40. Do you agree with the view that the grant of protection should not be confined to infant industries, but should be considered, if necessary, even before an industry is established or when proposals for its establishment are under consideration?

Q. 41. (a) Please indicate your views on the various alternative methods of protection, *e.g.*,

(i) protective import duty;

(ii) bounty or subsidy;

(iii) system of pool prices, *e.g.*, the aluminium price pool which was in force till recently;

(iv) quantitative restriction of imports based on a guaranteed market for at least a percentage of domestic production (when such quantitative restrictions can be imposed without conflict with pre-existing agreements or commitments)?

(b) Which of these methods should be the normal method?

(c) Would you like the appropriate method to be determined in each case on its merits? If so, what are the conditions you would like to bear in mind in selecting the method of protection?

Q. 42. What should be the Government's policy and procedure where the situation calls for only safeguarding or anti-dumping measures, as distinct from substantive protection, whether for small scale or large scale industries?

Q. 43. (a) What place would you assign to export duties in the tariff system in the future?

(b) Would you advocate export control (by duties or otherwise) for the purpose of—

(i) safeguarding the domestic consumer against critical shortages;

(ii) conserving domestic supplies of raw materials for utilization by domestic industries?

Q. 44. What fiscal measures, if any, would you recommend to enable an established industry to maintain its exports?

Q. 45. Have you any comments on the method by which the Tariff Board at present fixes the quantum of protection (the method of comparing the fair selling price of the domestic product with the landed cost of the imported product)?

Q. 46. Would you recommend variations in duties to meet variations in import costs?

Q. 47. Where protection is to be given by tariffs, what are the considerations which you think should govern the choice between the various alternative forms of duty such as specific, *ad valorem*, compound, etc.?

Q. 48. What do you think of the utility and practicability of tariff quotas?

Q. 49. Would you like a minimum or a maximum duration to be laid down for protective measures?

Q. 50. Are you satisfied with the existing system of revenue tariff classification? If not, what are its defects and what changes would you suggest? Can the existing system be so modified as to reduce the burden on the consumer without any appreciable loss of revenue to the public exchequer?

Q. 51. Having regard to—

(a) the future structure of our foreign trade,
(b) the anticipations relating to the course of international trade (underlying the Havana Charter on Trade and Employment), and
(c) the broad lines of our Industrial Policy as laid down in the Statement of the 6th April 1948,

would you attempt a formulation of the objectives of our long-term fiscal policy?

Q. 52. In order to facilitate the objectives of our fiscal policy, do you think it would be necessary for Government or quasi-Government institutions to participate in foreign trade (a) in the short period and (b) in the long run?

Q. 53. If your answer to the above question is in the affirmative, what form of Government or quasi-Government organisation would you recommend? What would be the limits to their activities, and what conditions, if any, would you impose on their functions?

SECTION E

Non-fiscal measures for the promotion of trade and industry.

Q. 54. The Indian Fiscal Commission of 1921-22 suggested several "supplementary measures" as an aid to the tariff policy which they had recommended. Would you enumerate the non-fiscal measures that Government should now adopt in-

furtherance of any approved fiscal policy both (a) in the short period and (b) in the long period?

Q. 55. In particular, have you any special suggestions to make as to how Government could facilitate—

(a) the supply of essential industrial raw materials, where these are not readily available in the country;

(b) the supply of essential plant and machinery;

(c) the supply of cheap fuel or power;

(d) the provision of cheap, adequate and quick transport both for the movement of raw and semi-processed materials and their finished products, made available under a scheme of rationalized freight-structure;

(e) the supply of technical personnel of different grades;

(f) the supply of technical information about industrial methods and processes;

(g) the supply of industrial finance, both for use as block and as working capital?

Q. 56. How and to what extent could the trade and industry co-operate with Government in the provision of such facilities?

Q. 57. Do you think any special types of organization would be necessary (a) to secure this co-operation between industry and trade and (b) to provide for the orderly supply of the facilities enumerated in Q. 55 or for the supply of such other facilities as may be considered necessary?

SECTION F

Fiscal Policy in relation to Commonwealth Preferences

[The Principle of Imperial preference was introduced into the tariff policy of India on a substantial scale for the first time by the Ottawa Trade Agreement which was concluded on the 20th August, 1932. Prior to this date India granted preference only to the protected classes of Iron and Steel and Cotton Piece-goods imported from the United Kingdom. The Ottawa Trade Agreement of 1932 provided for the grant of concessions to imports of U.K. origin covering as many as 106 articles. Similar concessions were also received by India on her exports to the United Kingdom on a wide range of articles.

The Ottawa Agreement was supplemented by the Iron and Steel Agreement which was signed in September 1933, and both these Agreements were duly ratified by the Indian Legislative Assembly.

The Indo-British Trade Agreement of 1935, which followed the Bombay-Lancashire Agreement of 1933 (Mody-Lees Pact) and was designed to supplement the Ottawa Agreement and was to hold good only during its currency, however, met with a different fate. This Agreement was intended to set out the general principles, which the Government of India desired to follow as regards the treatment of the United Kingdom goods competing with the products of a protected Indian industry, and appears to have been necessitated by the fact that the Ottawa Agreement had left untouched commodities which enjoyed protection in India. The supplementary Indo-British Agreement was, however, rejected by the Indian Legislative Assembly, and afterwards automatically lapsed when the notice of termination of the Ottawa Agreement was given in May 1936.

The Ottawa Agreement, which had never received a warm welcome in the country, came under heavy fire when the supplementary Indo-British Agreement was under discussion. A review of its working was undertaken in 1936 and shortly afterwards the Legislature voted its termination. Accordingly, a six months' notice of denunciation of the Ottawa Agreement was given on the 13th May 1936, but in the talks that immediately followed between the Government of India and the U.K. Government, it was agreed that the preferences granted under the Agreement would continue as a purely interim measure till a new Agreement had been arrived at between the two countries. After protracted negotiations, the Indo-British Trade Agreement of 1939 was signed on the 20th March, 1939.

The preferences that are being received by India on her exports to the United Kingdom and the preferences that are being granted to the imports of U.K. origin are at present governed by this Agreement, subject to the modifications introduced by the General Agreement on Tariffs and Trade as explained in a succeeding paragraph.

2. Under the Indo-British Trade Agreement, the United Kingdom granted preference at the rate of 10 per cent. *ad valorem* on the following articles, namely, bones, castorseed, coir yarn, cotton yarn (unbleached), raw goatskins, gram, groundnuts, teak and other hard woods, undressed leather, linseed, magnesite, oilseed cake and meal, paraffin wax, sandal-wood oil, soya-beans and certain specified spices; preferences at a rate of 15 per cent. *ad valorem* on certain vegetable oils, granite setts and kerbs, dressed leather, jute cordage and ropes; preferences at a rate of 20 per cent. *ad valorem* on coir mats and mattings, certain varieties of cotton manufactures and jute manufactures; and preferences at specific rates on magnesium chloride, coffee, tea, rice and carpets. In addition India was assured of free entry for lac, raw jute, myrobalam, mica slabs and splittings and hemp when imported from any sources whatever. U.K. also agreed

to maintain the existing preference on tobacco until the 19th August, 1942, and undertook to co-operate in any measures that might be practicable to facilitate the marketing of Indian tobacco in the United Kingdom.

3. In return for the above concessions, India granted to the United Kingdom preferences on 20 tariff items, namely, drugs and medicines containing spirit, cement, certain varieties of chemicals, drugs and medicines, colours and painter's materials, fents, woollen carpets, rugs and other woollen manufactures, iron or steel hoops and strips, iron or steel barbed or stranded wire and wire rope, copper wrought and certain copper manufactures, domestic refrigerators, sewing and knitting machines and parts, certain varieties of electrical and other instruments, apparatus and appliances, motor vehicles and parts and cycles.

4. Under a special article known as the Cotton Article, the U.K. was also granted an immediate concession by way of reduction in the duties on cotton piece-goods but the continuance of that concession was made dependent, on the one hand, on the imports of piece-goods from the United Kingdom keeping within certain well defined limits, and, on the other hand, on the U.K. purchasing from India certain agreed quantities of raw cotton. The following basic rates were fixed for cotton piece-goods imported from the United Kingdom:—

17½ per cent. *ad valorem* for printed goods; 15 per cent. *ad valorem* or 2 annas and 7½ pies per lb., whichever is higher, for grey goods; and 15 per cent. *ad valorem* for other cotton piece-goods, and it was provided that if during any "cotton year" the imports of Indian raw cotton into the U.K. fell below a specified minimum quantity or exceeded a specified maximum quantity, and, alternatively, if imports of the U.K. cotton piece-goods in any "cotton piece-goods year" exceeded a specified maximum yardage or fell below a specified minimum yardage, the basic rates stated above might, in the subsequent year, be increased or decreased within a certain limit.

5. Besides, the U.K. agreed to extend to India any tariff preferences granted to any of the Dominions or Newfoundland, Southern Rhodesia or Burma, and reciprocally, the Government of India undertook to extend to the United Kingdom any tariff preferences granted to any of these countries except Burma.

6. The Government of the Non-self-governing Colonies agreed to accord to India preferences granted by them to other parts of the British Empire with certain exceptions, and the Government of India, in their turn, undertook to grant most-favoured-nation treatment to the Non-self-governing Colonies.

7. Provision was made for separate trade negotiations with Ceylon pending which the preferences then given by Ceylon to India were continued and the Government of India agreed to give Ceylon the preferences given to other Non-self-governing Colonies.

8. Under the General Agreement on Tariffs and Trade, 1947, India Agreed to reduce the margin of preferences granted to the U.K. on six tariff items and the U.K. on their part have agreed to reduce the margins of preferences granted to India on 13 items. In this connection reference may also be made to the provisions of Article 17 of the Havana Charter under which negotiations for elimination of preferences are to be conducted on a reciprocal and mutual advantages basis.]

Q. 58. What are your general views on the subject of Imperial Preference—particularly in the light of the principles underlying the General Agreement on Tariffs and Trade and the Havana Charter on World Trade and Employment?

Q. 59. The Indian Fiscal Commission of 1921-22 recommended that, if the policy of Imperial Preference was adopted on the lines indicated in their Report, its application should be governed by the following principles:—

(a) that no preference should be granted on any article without the approval of the Legislature;

(b) that no preference given in any way should diminish the protection required by Indian industries;

(c) that preference given should not involve on balance any appreciable economic loss to India.

On the assumption that the scheme of Imperial Preference is continued, would you consider the above principles adequate? If not, would you formulate a comprehensive set of principles that may be applicable to the circumstances of the present?

Q. 60. Would you make a broad analysis of the effects of the preferences granted and received by India and U. K. respectively under the Indo-British Trade Agreement of 1939, as modified by the provisions of the General Agreement on Tariffs and Trade under the following heads:

(a) Expansion of trade;

(b) Customs revenues;

(c) Price levels of preferred commodities?

Q. 61. Please attempt a similar analysis in respect of the trade between India on the one hand and the other Commonwealth countries and the British colonies on the other.

Q. 62. In what direction and to what extent do you think the preferences on imports into India have affected the burden on the Indian consumer? Could you attempt a quantitative assessment with reference to some major preferred imports?

Q. 63. Is it possible to make a similar estimate of the extent to which our exports have expanded as a result of the preferences received by us in the U.K., the Dominions and the other British territories?

Q. 64. Apart from the economic advantages that may be derived from these mutual preferences, do you think that they confer any bargaining strength on India *vis-a-vis* (a) the United Kingdom and other Commonwealth countries and (b) non-Commonwealth countries? If so, please illustrate your answer with some examples.

Q. 65. (i) In the light of your replies to the above questions, would you formulate your views on the desirability of continuing the existing system of preferences between (a) India and the United Kingdom, (b) India and the other Dominions, and (c) India and the other British territories?

(ii) If you are not in favour of continuing the existing system, what modifications would you suggest?

Section G

Treatment and obligations of protected and assisted industries.

Q. 66. (a) Do you consider that industries receiving protection or assistance from Government owe a special obligation to the rest of the community as regards the manner in which they render their services?

(b) If so, please state your views as to these obligations under the following heads:

(i) price policy and price structure;

(ii) wages and conditions of labour;

(iii) adoption of technological improvements;

(iv) initiation of research in the technique of production and distribution;

(v) training of apprentices and Government scholars and stipendiaries;

(vi) control over the distribution of the products of protected industries in certain contingencies.

Q. 67. (a) Is it necessary to stipulate that no protected or assisted industry should engage in any restrictive practice in respect of (i) production, (ii) distribution, or (iii) prices?

(b) What general principles would you suggest to regulate the right of association or combination of the different units in a protected or assisted industry?

Q. 68. Would you lay down any conditions regarding the financial structure of the industries receiving protection?

Q. 69. (a) Are you satisfied with the present arrangements for the standardization and control of the quality of industrial products? In particular, do you think that any special arrangements for the control of quality of the products of protected and assisted industries are necessary?

(b) If so, would you impose this duty on the protected or assisted industries through such special organizations as they may set up with the approval of Government or would you set up any special institutions outside these industries?

(c) What in your view should be the structure and functions of such organizations or institutions? Should they be professionally expert bodies or be composed of representatives of the different interests concerned?

Q 70. Do you think that the obligations should be embodied in the relevant statutes dealing with protected or assisted industries or be left to be prescribed by the tariff-making machinery on an *ad hoc* basis, in each individual case of an industry seeking protection or assistance?

Q. 71. (a) Do you consider that any special administrative machinery is necessary to ensure that these obligations of protected and assisted industries are duly discharged? If so, what form of administrative machinery would you suggest?

(b) Or, would you prefer that this function should be entrusted to a special wing of the tariff-making machinery or of any other existing organization?

(c) Or, do you think that it will be necessary or desirable for Government to be represented on the management of protected or assisted industries in order to ensure that these obligations are carried out in the spirit in which they are conceived?

SECTION H

Organisation, methods and procedure

Q. 72. In the light of your replies do you consider that the existing administrative organizations will be adequate to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (i) fiscal measures and (ii) non-fiscal measures?

Q. 73. If not, what organisational changes would you propose in the existing machinery of Government dealing with these subjects?

Q. 74. (a) It has been suggested that it might be necessary to set up one comprehensive organisation (partaking of the nature of a Trade and Industrial Planning Commission) subdivided into suitable branches to deal with the planning and execution of various measures, relating to (i) tariffs, (ii) other fiscal measures, and (iii) non-fiscal measures, etc. Do you agree with this view?

(b) If so, would you indicate the type of organisational chart that you have in mind?

Q. 75. (a) Alternatively, would you prefer a series of specialised organisations dealing with these particular subjects?

(b) If so, how would you correlate the functions of these administrative organisations?

Q. 76. As a further alternative would you favour only one Technical Organisation dealing with Tariffs, leaving the other subjects to be dealt with by the different Ministries concerned more or less in the manner followed at present?

Q. 77. Whatever may be the structure of the planning and coordinating machinery that you may favour, do you agree that a specialised organisation for tariff purposes is essential to the implementation of a scientific tariff policy?

Q. 78. If so, would you agree with the recommendations of the Indian Fiscal Commission of 1921-22 that the Tariff Board or the Tariff Commission should be—

(i) a permanent body of high standing.

(ii) consisting of members who are of high ability, integrity and impartiality—preferably with a knowledge of economics and a practical acquaintance with business affairs? (Paras. 302, 309—Chapter XVII.)

Have you got any other views on the status and structure of an appropriate Tariff Board or Commission?

Q. 79. What in your view, are the appropriate functions of a Tariff Board? Do you agree with the recommendations of the Indian Fiscal Commission of 1921-22 on this subject? (Para. 306, Chapter XVII.)

Q. 80. Do you consider that the existing functions of the present Indian Tariff Board as laid down in the Government of India Resolutions of November 3, 1945, November 26, 1947 and August 6, 1948 (summarised in the note to Section B) are adequate? If not, what changes would you suggest?

Q. 81. (a) Do you consider that the present structure and organisation of the Tariff Board are adequate for the discharge of the duties entrusted to it?

(b) If not, what structural or organisational changes would you propose?

Q. 82. Do you think that the present procedure under which an industry's fitness for protection is considered only on application by that industry is sound? If not, how would you like it to be modified?

Q. 83. In any case, should the present procedure be modified so far as small and unorganised industries are concerned? If so, in what direction?

Q. 84. Where the procedure provides for an application for protection, should the application be addressed to Government or to the Tariff Board?

Q. 85. What modifications would you suggest in the present procedure to make it more expeditious?

Q. 86. Have you any improvements to suggest in the Tariff Board's present working methods (including the procedure for public hearings)?

Q. 87. Do you consider that the Tariff Board's recommendations should normally be accepted by Government implemented by it?

Q. 88. (a) Having regard to the nature of the duties and functions entrusted to the Tariff Board, do you consider that it should be placed on a statutory basis?

(b) If so, should the statute lay down only the composition and functions of the Tariff Board or also include the general principles governing tariff policy, the general procedure to be followed in tariff enquiries and the manner of enforcement of the obligations of protected or assisted industries?

(c) To what extent would such statutory provisions militate against flexibility? How could the possible risk of rigidity in procedure and administration implicit in statutory provisions, be either eliminated or reduced?

Questionnaire

PART II

Fiscal Policy in relation to Havana Charter on Trade and Employment and the General Agreement on Tariffs and Trade.

[Towards the end of 1945, the United States Government circulaised for consideration by the peoples of the world a document called "Proposals for Expansion of World Trade and Employment". International economic co-operation which had, by then, already taken some concrete form in the establishment of such international bodies as the Food and Agriculture Organisation (F.A.O.), the International Monetary Fund (I.M.F.), and the International Bank for Reconstruction and Development (I.B.R.D.) was sought to be reinforced by further measures dealing with trade barriers and discriminations. The proposals contained a strong plea for a concerted effort to release trade from the various restrictions imposed on it during the inter-war years with a view to securing the expansion of world trade on a multi-lateral basis and through it increased employment all over the world. Since this objective required that national policies in respect of International Trade and Employment should be in line with each other, it was proposed that an International Trade Organization (I.T.O.) should be set up, through which member nations could promote national and international action to fulfil this purpose.

2. Following the Proposals of the U. S. Government, conferences on trade and employment at international level were held in London, Geneva and Havana between 1946 and 1948, and the deliberations of these conferences resulted in the following two documents:—

(1) General Agreement on Tariffs and Trade (with a Protocol of Provisional Application); and

(2) the Havana Charter for an International Trade Organisation.

3. **G.A.T.T.**—Following the lead given by the U. S. Government negotiations were initiated at Geneva on April 10, 1947, by 23 countries (including India) sharing among them approximately 70 per cent. of the export and import trade of the world for substantial reduction of tariffs and other trade barriers and elimination of preferences on a reciprocal and mutually advantageous basis. These negotiations which ended on October 30, 1947, resulted in the framing of the General Agreement on Tariffs and Trade.

4. The text of the Agreement consists of three parts:—

Part I provides for general most-favoured-nation treatment, and deals with tariff concessions set forth in the schedules to the Agreement; Part II reproduces such commercial policy provisions of the Draft Charter adopted at Geneva as are necessary to safeguard the value of the tariff concessions; and Part III deals with territorial application, customs unions, and matters peculiar to the Agreement itself such as acceptance, modifications, amendment and accession.

5. So far as India is concerned, negotiations were conducted with 15 countries, and the concessions exchanged took the form of reduction in customs duties, reduction in preferential margins and binding of existing tariff treatment against future increase. They covered 12 items of export from India and 13 items of import into India. In offering concessions India adhered to three main principles:—

(1) Concessions are to be demonstrably in the interest of national economy, or, at least not injurious to it.

(2) They should not relate to products which are protected or which might claim protection during the next three years.

(3) They should not result in excessive loss of revenue.

6. Some of the provisions of the Agreement were initially unacceptable to India These were subsequently modified. As a result certain deviations from the principles of most-favoured-nation treatment are now permissible so that India can maintain her present sanctions against South Africa, and India and Pakistan can grant concessions to each other without extending them to other countries. Similarly, although import restrictions can be used for protective purposes only with the prior approval of the contracting parties to the Agreement, it has been provided that such approval will be automatically given whenever the restrictions are designed to protect industries established during the period from 1st January 1939 to 24th March 1948 or are found to be necessary to protect industries engaged in the processing of domestic raw material or of the bye-products of domestic industries. Besides, permission has also been given to the use of quantitative restrictions on balance of payment grounds.

The Protocol of Provisional Application was signed on behalf of India on the 8th June 1948, and the Agreement came into effect provisionally 30 days after, on the 9th July 1948.

The Agreement is open to revision or termination after the end of December 1950.

7. **Havana Charter.**—The Havana Charter was signed at Havana on the 24th March 1948 by 53 nations. It is a document which prescribes a code of behaviour in international trading relations and provides for the formation of an International Trade Organisation (I.T.O.) as a new specialised agency of the United Nations. The aims of the Organization are to promote the expansion of international trade by fostering the increase of production and employment, and by encouraging the economic development of the backward areas. It sets forth a series of international commitments with respect to national economic policies regarding tariffs, trading restrictions, quotas, exchange control, preferences, State trading, subsidies, cartels, inter-governmental commodity agreements, the international aspects of domestic employment policies, economic development and international investments.

The relation between GATT and the Charter is simply described. While the GATT is specific, the Charter is general, and the GATT is in a sense subsumed by the Charter, as the negotiations leading to the General Agreement are deemed to be in pursuance of the Commercial Policy (Article 17) embodied in the Havana Charter. When the Charter comes into force, it will supersede Article I and Part II of the General Agreement.

8. The Charter consists of 9 chapters (106 articles) which set out the specific obligations and immunities of a member in respect of international trade and tariff and other associated matters (such as production and employment).

It provides for, and facilitates, international investment for economic development and reconstruction, permitting at the same time such safeguards as may be necessary to ensure that foreign investment does not lead to interference with internal affairs or national policies.

It recognises the need for Government assistance to economic development and reconstruction in the form of protective measures; and while discouraging unwise use of such measures, permits its application, in certain cases, by negotiations with members affected, and, in others, with the prior approval of the I.T.O. This approval, however, is made automatic in respect of certain specified industries such as those which were established between January 1, 1939, and the date of the Charter, or those which are devoted to the processing of indigenous primary commodities.

The Charter further recognises that special circumstances may justify new preferential agreements between two or more members. Such proposals need I.T.O's approval by a 2/3rds majority (of the members present and voting). Approval, however, is made automatic if the proposed preferential agreement fulfils certain stated criteria

or conditions, such as, contiguity of the contracting parties or their belonging to the same economic region, or the assurance of a sound and adequate market.

The Charter lays down a Commercial Policy covering questions of tariffs and preferences. It deals *inter alia* with the application of general most-favoured-nation treatment, reduction of tariffs and elimination of preferences, as well as quantitative restrictions. The basic rule on quantitative restrictions is that they are prohibited. But there are specific exceptions relating to (1) the preventing or relieving of critical shortages of foodstuffs, (2) internal control schemes to safeguard agriculture and fishery products and (3) balance of payment difficulty. Quantitative restrictions when allowed, are to be used in all general cases in a non-discriminatory manner.

9. The structure of the I.T.O. consists of a Conference which is to meet once a year, an Executive Board and a Secretariat. The Executive Board is to consist of 18 members selected every three years by the Conference. There will be eight permanent seats on the Board to be held by eight States 'of chief economic importance'. Seven of these permanent seats in the first Board have been assigned to the United States of America, Britain, Canada, France, Benelux, China and India; the eighth has been reserved for the U.S.S.R. should that country eventually wish to join. The ten non-permanent seats are to be filled by election from among the other member States.

Besides, the I.T.O. will have the assistance of some Commissions, which are to be composed of experts, who will advise the Conference and the Board and will also conduct studies in international trade and commercial policy.]

Q. 89. Do you approve of the basic purpose and objectives underlying the Havana Charter on Trade and Employment?

Q. 90. Do you consider that the provisions and safeguards laid down in the Charter for the economic development and reconstruction of backward and under-developed countries are adequate for the requirements of India?

Q. 91. If not, to what extent, do you think these provisions and safeguards fall short of India's minimum requirements? Please illustrate your reply with facts drawn from your knowledge or experience.

Q. 92. In particular, do you consider that the terms and conditions proposed in the Charter for (a) the continued employment of existing foreign capital and (b) new foreign investment, are broadly in conformity with the requirements of India?

Q. 93. Are you in agreement with the broad lines of the commercial policy as set out in Chapter IV of the Havana Charter?

Q. 94. If not, would you elaborate your objections to those Articles of the Havana Charter bearing on commercial policy, which you consider detrimental to the interests of our industry? Do your objections relate to the short or the long period or to both?

Q. 95. Do you anticipate any injurious effects on our trade and industry on account of our acceptance of the obligations of the Charter (i) in the short period, and (ii) in the long run?

Q. 96. On a careful balancing of pros and cons, do you approve of India's adherence to the Havana Charter and her consequent participation in the proposed International Trade Organization?

Q. 97. If not, what would be the broad lines of commercial policy that you would advocate for India; and in particular the fiscal measures that you would recommend for Government's acceptance?

Q. 98. If you agree that India should adhere to the Charter and join the International Trade Organization, have you any views to express on (a) the structure and functions of the International Trade Organization, (b) the procedure laid down for its working, and (c) India's position and status in the International Trade Organization?

Q. 99. Do you agree with the main principles underlying the General Agreement on Tariffs and Trade as laid down in Part I and Part II of the Agreement? If not, please detail your objections under specific heads.

Q. 100. Have you any comments to make on—

(a) the concessions granted by us to other countries in respect of imports into this country; and

(b) the concessions received by us in respect of our exports abroad?

Q. 101. On a careful examination of these reciprocal concessions* do you consider that the provisions of the General Agreement on Tariffs and Trade have been, on balance, in the interests of India? If not, to what extent do you think these provisions have been at fault from India's point of view?

* Details of the reciprocal concessions are fully set out in the 'Memorandum on the General Agreement on Tariffs and Trade' issued by the Ministry of Commerce in July 1948.

Q. 102. Have you any comments to make on the actual working of the tariff concessions granted by India to other countries since July 1948?

Q. 103. Have you any reasons to think that the provisions of the General Agreement on Tariffs and Trade are not being worked by other contracting countries in the spirit in which they were conceived? If so, please illustrate your reply with examples drawn from your knowledge or experience.

Q. 104. Other things being equal, would you or would you not favour the continuance of the tariff concessions granted by India to other countries beyond January 1, 1951?

APPENDIX II

List of Witnesses examined by the Commission

Place	Date	Witnesses examined
Bombay	10-11-1949 11-11-1949 and 12-11-1949	1. Governor and officers of the Reserve Bank of India 2. President and Members of the Indian Tariff Board
Banaras	21-11-1949	*Representatives of Banaras—* 3. Hosiery Industry 4. Silk Industry 5. Gold Thread Industry 6. Brassware Industry 7. Preserved Fruits Industry and 8. Rural Cottage Industry
Lucknow	23-11-1949 and 24-11-1949	9. Representatives of the Government of U. P. 10. Hon'ble the Chief Minister of U. P. 11. Representatives of the Indian National Sugar Workers' Federation 12. Prof. Radhakamal Mukerjee and Members of the Staff of the Department of Economics, Lucknow University
Kanpur	25-11-1949	*Representatives of—* 13. The Upper India Chamber of Commerce 14. The U. P. Chamber of Commerce 15. The All-India Federation of Cycle Traders
	26-11-1949	16. Director of Indian Institute of Sugar Technology 17. Chairman, Joint Sugar Commission, U. P. and Bihar *Representatives of—* 18. The Indian Sugar Syndicate 19. The Merchants' Chamber of U. P. 20. The Sugar Merchants' Association 21. Cane Commissioner, U. P.
Calcutta	19-12-1949	22. Representatives of the Calcutta Stock Exchange 23. Bengal National Chamber of Commerce 24. Prof. D. Ghosh and Members of the Staff, Department of Economics, University of Calcutta
	20-12-1949	*Representatives of—* 25. The Associated Chamber of Commerce 26. The Bengal Chamber of Commerce 27. The Bharat Chamber of Commerce 28. The Hindusthan Chamber of Commerce
	21-12-1949	29. Shri Biren Mukherjee, Steel Corporation of Bengal 30. Shri Padamji Pestonji Ginwala, 12, Mission Row, Calcutta

Place	Date	Witnesses Examined
Calcutta—contd		*Representatives of*—
		31. The Indian Mining Association
		32. The Indian Chamber of Commerce
	22-12-1949	33. Coal Commissioner
		Representatives of—
		34. The Indian Tea Association
		35. The Indian Sugar Mills' Association
		36. The Indian Aluminium Co., Ltd.
		37. The Bengal Pharmaceutical Association
	23-12-1949	38. Sir Edward Benthal, Bird & Co., Calcutta
		39. Representatives of the Indian Jute Mills Association.
		40. Hon'ble the Chief Minister of West Bengal and other Ministers.
		41. Representatives of the Government of West Bengal.
	24-12-1949	42. Representatives of the Government of Bihar
		43. Shri C. S. Rangaswami, Editor, "Indian Finance"
	26-12-1949	*Representatives of*—
		44. The Indian Paper Mills' Association
		45. The Government of Assam
		46. The Aluminium Corporation of India Ltd.
		47. Shri A. Ramaswami Mudaliar, Kilpauk, Madras
Madras	6-1-1950	*Representatives of*—
		48. The Madras Chamber of Commerce
		49. The Andhra Chamber of Commerce
		50. The Tamil Chamber of Commerce
		51. The Hindusthan Chamber of Commerce
		52. Prof. R. Balakrishna and Members of the Staff of the Department of Economics, University of Madras
	7-1-1950	53. Representatives of the Government of Madras
		54. Hon'ble the Chief Minister of Madras and other Ministers
		55. The Southern India Chamber of Commerce
		56. The Muslim Chamber of Commerce
		57. The South India Millowners' Association
		58. Shri A. C. Sampath Ayyangar, Adviser, Indian Chamber of Commerce
	8-1-1950	59. Shri C. P. Ramaswami Ayyar, Teynampet, Madras
		60. Dr. P. S. Lokanathan, Secretary, E.C.A.F.E., Bangkok
		61. Shri C.R. Srinivasan, Editor, "Swadeshmitran" Madras

Place	Date	Witnesses Examined
Bangalore	9-1-1950	62. Shri Navaratna Rama Rao, Bangalore
		63. Representatives of the Mysore Chamber of Commerce
	10-1-1950	64. Shri M. A. Srinivassan, "Uplands", Bangalore Cantt.
		65. Representatives of the Government of Mysore
		66. Hon'ble Ministers of the Mysore Government
Ernakulam	12-1-1950	*Representatives of*—
		67. The Alleppy Chamber of Commerce
		68. The Indian Chamber of Commerce, Cochin
		69. The Cochin Chamber of Commerce.
Nagpur	21-1-1950	*Representatives of*—
		70. The C. P. & Berar Millowners' Association
		71. The C. P. & Berar Chamber of Commerce
	22-1-1950	72. Representatives of the Government of Madhya Pradesh
		73. Hon'ble the Chief Minister of Madhya Pradesh and other Ministers.
Ahmedabad	28-1-1950	*Representatives of*—
		74. The Ahmedabad Millowners' Association
		75. The Ahmedabad Textile Labour Union
	29-1-1950	76. Shri B. K. Mazumdar, Atul Products Ltd.
		Representatives of—
		77. The Federation of Baroda Mills & Industries
		78. The Stock and Share Brokers' Association
		79. The Ahmedabad Mill Stores Merchants' Association
Bombay	31-1-1950	*Representatives of*—
		80. The Bombay Chamber of Commerce
		81. The Bombay Millowners' Association
		82. Mr. T. P. Barat, Textile Commissioner
		83. Prof. C. N. Vakil and Members of the Staff of the Department of Economics, University of Bombay
	1-2-1950	*Representatives of*—
		84. The Indian Banks' Association
		85. All-India Manufacturers' Organization
		86. Shri Chunilal B. Mehta, 52, Ridge Road
		87. Shri R. Nanabhoy, Consultant in Industrial Management and Cost

Place	Date	Witnesses Examined
Bombay— contd.	2-2-1950	*Representatives of—*
		88. Indian Merchants' Chamber
		89. The Indian National Steamship Owners' Association.
		90. Prof. D.R. Gadgil, Gokhale Institute of Economics and Political Science, Poona
		91. Shri Manu Subedar, Kodak House, Hornby Road
	3-2-1950	*Representatives of—*
		92. The Maharashtra Chamber of Commerce
		93. The Native Share and Stock Exchange Association, Bombay
		94. Shri A. D. Shroff, Tata Industries Ltd.
		95. Shri Purushottam Das Thakurdas, Navsari Chambers, Outram Road
	4-2-1950	96. Representative of the Indian Roads and Transport Development Association
		97. Shri J. J. Kapadia, Hony. Secretary, The Bombay Shareholders' Association.
		98. Shri R. C. Cooper, Incorporated Accountant
		99. Shri Asoka Mehta and Shri Rohit Dave, Representatives of the Socialist Party and the Hind Mazdoor Sabha
	5-2-1950	100. Hon'ble the Minister for Industries, Government of Saurashtra.
	6-2-1950	101. Representatives of the Government of Bombay
		102. Hon'ble the Chief Minister and other Ministers of the Government of Bombay.
		103. Shri S. K. Patil, Mayor of Bombay
		104. Representatives of the Indian Life Offices' Association and Insurance Companies' Association
New Delhi	20-1-1950	*Representatives of—*
		105. The Indian Chemical Manufacturers' Association
		106. The Indian Mining Association
		107. The Indian National Trade Union Congress
		108. Prof. V.K.R.V. Rao and Members of the staff of the Economic Department, University of Delhi
	21-2-1950	*Representatives of—*
		109. The Government of the Punjab (I)
		110. The Central Electricity Commission
		111. The Ministry of Finance
	22-2-1950	112. Shri Ramnath, Industrial Finance Corporation of India.
		113. Shri Sri Ram, 2, Curzon Road, New Delhi.
		Representatives of—
		114. The Railway Board
		115. The Ministry of Industry and Supply

Place	Date	Witnesses Examined
New Delhi—concld.	23-2-1950	*Representatives of*—
		116. The Indian Cycle Manufacturers' Association
		117. The Punjab Chamber of Commerce
		118. Shri G.D. Birla, Birla House, Albuquerque Road, New Delhi.
		119. Representatives of the Ministry of Commerce
	24-2-1950	*Representatives of* —
		120. The Indian Council of Agricultural Research
		121. The Ministry of Agriculture
		122. The Geological Survey and Bureau of Mines
	25-2-1950	123. Shri C. D. Deshmukh
		124. Dr. Gyan Chand, Cabinet Secretariat
		125. Dr. L. C. Verman, Indian Standard Institute
	27-2-1950	126. Representatives of the Federation of Indian Chambers of Commerce and Industry
	28-2-1950	127. Representatives of the Ministry of Labour
		128. Prof. J. R. Hicks, Mrs Ursula Hicks, (Oxford University)

APPENDIX III

Government of India Resolution on Industrial Policy dated the 6th April 1948

No. I(3)-44(13)/48.—The Government of India have given careful thought to the economic problems facing the country. The nation has now set itself to establish a social order where justice and equality of opportunity shall be secured to all the people. The immediate objective is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community. For this purpose, careful planning and integrated effort over the whole field of national activity are necessary; and the Government of India propose to establish a National Planning Commission to formulate programmes of development and to secure their execution. The present statement, however, confines itself to Government's policy in the industrial field.

2. Any improvement in the economic conditions of the country postulates an increase in national wealth: a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial; and in particular on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange.

3. The problem of State participation in Industry and the conditions in which private enterprise should be allowed to operate must be judged in this context. There can be no doubt that the State must play a progressively active role in the development of industries, but ability to achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise. Under present conditions, the mechanism and the resources of the State may not permit it to function forthwith in Industry as widely as may be desirable. The Government of India are taking steps to remedy the situation; in particular, they

are considering steps to create a body of men trained in business methods and management. They feel, however, that for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play.

4. On these considerations the Government have decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further, in any emergency, the Government would always have the power to take over any industry vital for national defence. In the case of the following industries, the State—which in this context, includes Central, Provincial and State Governments and other Public Authorities like Municipal Corporations—will be exclusively responsible for the establishment of new undertakings, except where, in the national interest, the State itself finds it necessary to secure the co-operation of private enterprise subject to such control and regulation as the Central Government may prescribe:—

(1) Coal (the Indian Coalfields Committee's proposals will be generally followed).

(2) Iron and Steel.

(3) Aircraft Manufacture.

(4) Shipbuilding.

(5) Manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets.

(6) Mineral Oils.

While the inherent right of the State to acquire any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertakings in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion. At the end of this period, the whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the State should acquire any unit, the fundamental rights guaranteed by the Constitution will be observed and compensation will be awarded on a fair and equitable basis.

Management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the

Central Government, who will assume such powers as may be necessary to ensure this.

5. The Government of India have recently promulgated a measure for the control by the State of the generation and distribution of electric power. This industry will continue to be regulated in terms of this measure.

6. The rest of the industrial field will normally be open to private enterprise, individual as well as co-operative. The State will also progressively participate in this field; nor will it hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory. The Central Government have already embarked on enterprises like large river-valley developments, which are multipurpose projects of great magnitude, involving extensive generation of hydro-electric power and irrigation on a vast scale, and are calculated in a comparatively short time to change the entire face of large areas in this country. Projects like the Damodar Valley Scheme, the Kosi Reservoir, the Hirakud Dam, etc., are in a class by themselves and can stand comparison with any of the major schemes in America or elsewhere. The Central Government have also undertaken the production of fertilizer on a very large scale and have in view other enterprises like the manufacture of essential drugs, and of synthetic oil from coal; many Provincial and State Governments are also proceeding on similar lines.

7. There are certain basic industries of importance, apart from those mentioned in paragraph 4, the planning and regulation of which by the Central Government is necessary in the national interest. The following industries whose location must be governed by economic factors of all-India import, or which require considerable investment or a high degree of technical skill, will be the subject of Central regulation and control:—

(1) Salt.
(2) Automobiles and tractors.
(3) Prime Movers.
(4) Electric Engineering.
(5) Other heavy machinery.
(6) Machine tools.
(7) Heavy chemicals, fertilizers and pharmaceuticals and drugs.
(8) Electro-chemical industries.
(9) Non-ferrous metals.
(10) Rubber Manufactures.
(11) Power and industrial alcohol.
(12) Cotton and woollen textiles.

(13) Cement.
(14) Sugar.
(15) Paper and newsprint.
(16) Air and Sea Transport.
(17) Minerals.
(18) Industries related to defence.

The above list cannot obviously be of an exhaustive nature. The Government of India, while retaining the ultimate direction over this field of industry, will consult the Governments of the Provinces and States at all stages and fully associate them in the formulation and execution of plans. Besides these Governments, representatives of Industry and Labour will also be associated with the Central Government in the Industrial Advisory Council and other bodies which they propose to establish, as recommended by the Industries Conference.

8. Cottage and small-scale industries have a very important role in the national economy, offering as they do scope for individual, village or cooperative enterprise, and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. The healthy expansion of cottage and small-scale industries depends upon a number of factors like the provision of raw materials, cheap power, technical advice, organised marketing of their produce, and, where necessary, safeguards against intensive competition by large-scale manufacture, as well as on the education of the worker in the use of the best available technique. Most of these fall in the Provincial sphere and are receiving the attention of the Governments of the Provinces and the States. The Resolution of the Industries Conference has requested the Central Government to investigate how far and in what manner these industries can be co-ordinated and integrated with large scale industries. The Government of India accept this recommendation. It will be examined, for example, how the textile mill industry can be made complementary to, rather than competitive with the handloom industry, which is the country's largest and best organised cottage industry. In certain other lines of production, like agricultural implements, textile accessories, and parts of machine tools, it should be possible to produce components on a cottage industry scale and assemble these into their final product at a factory. It will also be investigated how far industries at present highly centralised could be decentralised with advantage.

The Resolution of the Industries Conference has recommended that Government should establish a Cottage Industries Board for the

fostering of small scale industries. The Government of India accept this recommendation and propose to create suitable machinery to implement it. A Cottage and Small-scale Industries Directorate will also be set up within the Directorate General of Industries and Supplies.

One of the main objectives will be to give a distinctly co-operative bias to this field of industry. During and before the last war, even a predominantly agricultural country like China showed what could be done in this respect, and her mobile industrial co-operative units were of outstanding assistance in her struggle against Japan. The present international situation is likely to lessen to a marked degree our chances of getting capital goods for large-scale industry, and the leeway must be made up by having recourse to small-size industrial co-operatives throughout the country.

9. The Government, however, recognise that their objective, *viz.*, securing the maximum increase in production, will not be realised merely by prescribing the respective spheres of the State and of private enterprise in Industry: it is equally essential to ensure the fullest co-operation between labour and management and the maintenance of stable and friendly relations between them. A Resolution on this subject was unanimously passed by the Industries Conference which was held in December last. Amongst other things, the Resolution states:—

> "............The system of remuneration to capital as well as labour must be so devised that, while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort, after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking."

Government accept this Resolution. They also consider that labour's share of the profits should be on a sliding scale normally varying with production. They propose, in addition to the over-all regulation of industry by the State, to establish machinery for advising on fair wages, fair remuneration for capital, and conditions of labour. They will also take steps to associate labour in all matters concerning industrial production.

The machinery which Government propose to set up will function at different levels, central, regional and unit. At the Centre, there will be a Central Advisory Council, which will cover the entire field of industry, and will have under it Committees for each major industry. These Committees may, be split up into sub-committees

dealing with specific questions relating to the industry, *e.g.* production, industrial relations, wage fixation, and distribution of profits. The regional machinery under the Provincial Governments will be Provincial Advisory Boards which, like the Central Advisory Council, will cover the entire field of industry within the province; they will have under them Provincial Committees for each major industry. The Provincial Committees may also be split up into various sub-committees dealing with specific questions relating to production, wage fixation and industrial relations. Below the Provincial Committees will come the Works Committees and the Production Committees attached to each major industrial establishment.

The Works Committees and the Production Committees will be bi-partite in character, consisting of representatives of employers and workers only, in equal numbers. All other Committees will be tripartite, with representatives of Government, employers and workers.

Government hope that the machinery proposed will substantially reduce the volume of industrial disputes. In the case of unresolved conflicts, Government trust that management and labour will, in their own interests and in the larger interests of the country, agree to settle them through recognised channels of conciliation and arbitration, which will be provided by Government. The Industrial Relations Machinery, both at the Centre and in the Provinces, is being strengthened, and permanent Industrial Tribunals are being established for dealing with major disputes.

The Government of India are also taking special steps to improve industrial housing as quickly as possible. A scheme for the construction of one million workers' houses in ten years is under contemplation, and a Housing Board is being constituted for this purpose. The cost will be shared in suitable proportions between Government, employers and labour, the share of labour being recovered in the form of a reasonable rent.

In order to ensure quick decisions on the various matters arising out of the Industrial Truce Resolution, Government are appointing a special officer.

10. The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this purpose. Such legislation will provide for the

scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that, as a rule, the major interest in ownership, and effective control, should always be in Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.

11. The Government of India are fully alive to their direct responsibility for the development of those industries which they have found necessary to reserve exclusively for State enterprise. They are equally ready to extend their assistance to private or co-operative enterprise in the rest of the industrial field, and in particular, by removing transport difficulties and by facilitating the import of essential raw materials to the maximum possible extent. The tariff policy of Government will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer. The system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

12. The Government of India hope that this elucidation of their intentions on fundamental aspects of industrial policy will remove all misapprehensions, and they are confident that a joint and intensive effort will now be made by labour, capital and the general public, which will pave the way for the rapid industrialisation of the country.

APPENDIX IV

STATEMENT MADE BY THE PRIME MINISTER IN THE CONSTITUENT ASSEMBLY OF INDIA (LEGISLATIVE) ON 6TH APRIL, 1949.

The policy as regards participation of foreign capital has already been announced in broad terms in Government's resolution of the 6th April 1948. The stress on the need to regulate, in the national interest, the scope and manner of foreign capital arose from past association of foreign capital and control with foreign domination of the economy of the country. But circumstances today are quite different. The object of our regulation should therefore be the utilisation of foreign capital in a manner most advantageous to the country. Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for the rapid development of the country on the scale we wish, but also because in many cases scientific, technical and industrial knowledge and capital equipment can best be secured along with foreign capital.

In this context, foreign investors would no doubt wish to have some clear indication of our policy on certain matters, like the repatriation of capital, the remittance of profits, and the treatment of foreign enterprise *vis-a-vis* Indian enterprise. I propose to make the policy of Government quite clear in this matter.

In the first place, I would like to state that Government would expect all undertakings, Indian or foreign, to conform to the general requirements of their industrial policy. As regards existing foreign interests, Government do not intend to place any restrictions or impose any conditions which are not applicable to similar Indian enterprise. Government would also so frame their policy as to enable further foreign capital to be invested in India on terms and conditions that are mutually advantageous.

Secondly, foreign interests would be permitted to earn profits, subject only to regulations common to all. We do not foresee any difficulty in continuing the existing facilities for remittance of profits, and Government have no intention to place any restriction on withdrawal of foreign capital investments, but remittance facilities would naturally depend on foreign exchange considerations. If, however, any foreign concerns come to be compulsorily acquired, Government would provide reasonable facilities for the remittance of proceeds.

Thirdly, if and when foreign enterprises are compulsorily acquired, compensation will be paid on a fair and equitable basis as already announced in Government's statement of policy.

Government have stated before that, as a rule, the major interest in ownership and effective control of an undertaking should be in Indian hands. They have also stated that power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. Obviously there can be no hard and fast rule in this matter. Government will not object to foreign capital having control of a concern for a limited period, if it is found to be in the national interest and each individual case will be dealt with on its merits. In the matter of employment of personnel, Government would not object to the employment of non-Indians in posts requiring technical skill and experience, when Indians of requisite qualifications are not available, but they attach vital importance to the training and employment of Indians even for such posts in the quickest possible manner.

I should like to add a few words about British interests in India which naturally form the largest part of foreign investments in India. Although it is the policy of the Government of India to encourage the growth of Indian industry and commerce (including such services like Banking, Shipping and Insurance) to the best of their ability, there is and will still be considerable scope for the investment of British capital in India. These considerations will apply equally to other existing non-Indian interests. The Government of India have no desire to injure in any way British or other non-Indian interests in India and would gladly welcome their contribution in a constructive and co-operative role in the development of India's economy.

APPENDIX V

Statement showing present installed capacity and annual production in 1946-1949 of some important Indian Industries

Serial No.	Industry	Unit	Present Installed Capacity (Annual)	Annual Production 1946	Annual Production 1947	Annual Production 1948	Annual Production 1949
1	2	3	4	5	6	7	8
	I. FUEL AND POWER						
1	Coal	'000' tons	3,00,00	2,88,85	3,00,00	2,98,22	3,14,57
2	Electricity.						
	II. BASIC RAW MATERIALS						
1	*Unprocessed.*						
	(a) Cotton Raw	Lakh Bales	..	..	28	26	..
	(b) Jute Raw	Lakh Bales	..	..	15	22	26
	(c) Rubber Raw	Tons	17,174	..	16,449	15,400	..
2	*Processed.*						
	(d) Cotton Yarn	Million Lbs.	One Lakh spindles*	1,367	1,296	1,448	1,360
	(e) Chrome Tanned Hides	'000' Nos.	19,76	..	..	10,87	5,81
	(f) Vegetable Tanned Buffalo and Cow Hides.**	'000' Nos.	31,84	..	..	19,53	18,35

*Including 1,77,762 permanently idle spindles.

**Expressed in terms of cow hides.

III. PRODUCERS' GOODS

1	2	3	4	5	6	7	8
1	*Buildings Materials.*						
	(a) Cement	Tons	2,815	1,542	1,448	1,553	2,102
	(b) Asbestos (cement sheets)	'000' Tons	1,01	..	..	76	79
	(c) Conduit pipes	'000' Feet	66,00	..	*	17,07	29,49
2	*Steel* (Ingots and Castings)	'000' Tons	16,44	12,93	12,56	12,56	13,53
3	*Non-Ferrous Metals.*						
	(a) Aluminium	Tons	4,000	3,236	3,215	3,362	3,492
	(b) Antimony	Tons	700	132	235	330	100
	(c) Copper	Tons	7,000	6,211	5,981	5,843	6,390
	(d) Lead	Tons	7,200	Nil	190	625	593
4	*Machine Tools (Value)*	'000' Rupees	..	91,25	45,87	54,73	47,09
5	*Chemicals.*					..	
	(a) Sulphuric Acid	'000' Tons	1,50	60	60	80	80
	(b) Super Phosphates	'000' Tons	1,08	5	5	21	47
	(c) Caustic Soda	'000' Tons	18	3	3	4	6
	(d) Soda Ash	'000' Tons	54	12	14	29	18
	(e) Chlorine Liquid	Tons	6,540	1,500	1,706	1,800	2,649
	(f) Bleaching Powder	Tons	5,160	2,000	2,550	2,836	2,468
	(g) Bichromates	Tons	5,520	2,081	2,306	2,939	1,720
6	*Alcohol*						
	(a) Industrial	'000' Gallons	48,00	..	48,20	49,00	29,88
	(b) Power	'000' Gallons	78,00	..	22,60	35,40	40,06
7	*Electric Goods etc.*						
	(a) Dry Cells	Nos Lakhs	18,72	8,80	8,79	12,38	15,12
	(b) Electric Motors	'000' H. P.	2,00	46	38	60	68
	(c) Power Transformers	'000' K. V. A.	2,25	39	32	82	1,09
	(d) Belting	Tons.	1,596	..	615	661	403
	(e) Diesel Engines	Nos.	5,196	473	685	1,025	2,076
8	*Refractories.*	'000' Tons	2,96	1,57	1,75	1,89	2,08
9	*Insulators.*						
	(a) H. T.	'000' Nos.	42,00 pieces	..	74	90	1,37
	(b) L. T.	'000' Nos.		..	14,30	25,03	22,39
10	*Sheet Glass*	'000' sq. ft.	2,04,00	..	57,19	62,55	34,51
11	*Abrasives.*	'000' Reams	1,45	61	41	46	25
12	*Packing Materials.*						
	(a) Jute Manufactures	'000' Tons	71,324 looms (including special looms).	1,089	1,052	1,091	946
	(b) Plywood (Tea Chests and Commercial combined).	Lakhs sq. ft.	10,00	..	3,43	5,37	4,68

IV. CONSUMERS' GOODS

1	2	3	4	5	6	7	8
1	*Textiles.*						
	(a) Cotton Cloth	'000,000' Yds.	1,92,357 Looms.	3,90,9	3,76,2	4,31,9	3,90,6
	(b) Woollen Manufactures	'000' lbs.	3,00,00	2,70,00	2,40,00	2,36,00	2,02,73
2	*Food Industries.*						
	(a) Sugar	'000' Tons.	11,10	9,01†	9,25	10,00	10,42†
	(b) Salt	'000' Mds.	..	4,79	5,16	6,35	5,56
	(c) Tea	Millions lbs.	551	..	551	542	550
	(d) Coffee††	Tons	..	..	16,846	16,125	22,380
3	*Cigarettes.*	'000,000' Nos.	30,000	..	18,879	21,825	21,950
4	*Drugs (Tinctures and galenicals.)*	'000' Gals.	7,50	..	500	522	*
5	*Paper and paper board*	'000' Tons	1,10	1,06	93	98	103
6	*Matches*	Cases**	8,00,000	4,12,000	4,65,718	5,33,243	5,24,322
7	*Electric goods.*						
	(a) Electric Lamps	'000' Nos.	1,80,00	61,31	76,20	92,46	1,36,26
	(b) Storage Batteries	'000' Nos.	2,68	27	70	110	1,07
	(c) Electric Fans	'000' Nos.	3,00	1,10	1,60	1,80	1,65
8	*Cables and Wires*						
	(a) Bare Copper Conductors	Tons	24,000	..	..	5,880	5,725
	(b) Winding Wires	Tons	396	..	..	330	340
	(c) Rubber Insulated Cables and Flexibles.	'000' Yds.	5,04,00	..	..	2,20,00	1,93,56

* Not available.

†† Figures represent total output of coffee cured, pounded and delivered to the coffee pool.

** 50 Gross boxes of 60 sticks each.

† Figures incomplete and subject to revision

IV. CONSUMERS' GOODS (concld.)

1	2	3	4	5	6	7	8
9	*Mechanical Industries.*						
	(a) Hurricane Lantern	'000' Nos.	32,95	4,70	9,10	9,79	17,28
	(b) Sewing Machine	000' Nos.	37,200	6,121	5,860	20,019	25,029
	(c) Bicycles	000' Nos.	94,000	50,650	48,827	64,740	94,066
	(d) Radio Receivers	000' Nos.	60,000	..	3,033	25,000	16,032
	(e) Centrifugal Pumps and Hand Pumps.	'000' Nos.	23	..	19	17	*
10	*Ceramics*	'000' Tons	30	..	20	23	*
11	*Enamel wares*	'000' Pieces	2,52,00	..	85,32	67,63	66,00
12	*Rubber Goods.*						
	(a) Tyres and Tubes						
	(i) For cycles	'000' Nos.	1,20,00	67,43	75,50	71,60	77,40
	(ii) Other than cycles	'000' Nos.	20,00	14,56†	16,30	15,20	13,38
	(b) Footwear	'000' Pairs	2,39,20	1,44,12	..	1,87,02	1,77,15
	(c) Toy Balloons, Nipples, valves, etc.	'000' Doz.	2,02,34	..	..	2,36,59	68,15
13	*Leather Goods.*						
	(a) Western type footwear leather.	'000' Pairs	48,78	..	..	32,02	28,50
	(b) Indigenous type footwear leather.	'000' Pairs	..	..	..	20,68	21,09
14	*Soap*	'000' Tons	..	..	80	190	*

* Not available.
† Figures incomplete and subject to revision.

APPENDIX VI

Articles liable to Protective Duty

Sl. No.	Name of industry	Date from which industry is protected	Item No. together with the description of the article as in the Indian Customs Tariff	PRESENT RATES OF DUTY (as on 1-5-50) Standard	of British manufacture	of non-British manufacture	Duration of protective rates of duty
1	2	3	4	5	6	7	8
1	Alloy tool and special steel.	April 18th, 1947.	63(30) Rods or bars of alloy tool or special steel of the following categories, but excluding precision ground and polished bars, bright drawn bars, blue reeled bars and silver steel finish bars : (1) High speed steel containing more than 13 per cent. tungsten, (2) Stainless and heat resisting steel containing more than 11 per cent. chromium, (3) Other alloy steels not included in category (1) or (2) containing any of the following :— (i) 0·40 per cent. or more of chromium or nickel; (ii) 0·10 per cent. or more of molybdenum, tungsten or vanadium, or (iii) 10·00 per cent. or more of manganese.	..	30 per cent. *ad valorem.*	42 per cent. *ad valorem.*	December 31st, 1951.

1	2	3	4	5	6	7	8
2	Aluminium	May 15th, 1949.	66 Aluminium manufactures, the following, namely:—				
			(a) Plates, sheets, circles, strips and foil, including foil in any form or size ordinarily used as parts and fittings of tea chests;	30 per cent. *ad valorem plus* Rs.121 per ton.	..	..	May 14th, 1952.
			66 (1) Aluminium in any crude form, including ingots, bars, blocks, slabs, billets, shots and pellets.	30 per cent. *ad valorem plus* Rs. 328 per ton.	..	..	May 14th, 1952.
3	Antimony	April 18th, 1947.	70(2) Crude Antimony	20 per cent. *ad valorem*.	..	..	December 31st, 1952.
			70(3) Antimony, other than crude antimony.	30 per cent. *ad valorem*.	..	..	December, 31st, 1952.
4	Artificial Silk	1934	48(1) Fabrics, not otherwise specified, containing more than 90 per cent. of artificial silk.	..	30 per cent. *ad valorem* or $2\frac{1}{2}$ annas per square yard, whichever is higher *plus* one half of the total duty.	50 per cent. *ad valorem* or 4 annas per square yard whichever is higher *plus* one half of the total duty.	March 31st, 1951.
			48(4) Fabrics, not otherwise specified, containing more than 10 per cent. and not more than 90 per cent silk–				
			(a) containing more than 50 per cent. of silk or artificial silk or of both.	50 per cent. *ad valorem plus* Rs. 2 per lb. *plus* one half of the total duty.	..	..	March 31st, 1951.

1	2	3	4	5	6	7	8
			(b) containing not more than 50 per cent. of silk or artificial silk or of both.				
			(i) containing more than 10 per cent. artificial silk.	50 per cent. *ad valorem* or Re. 1-8-0 per lb. whichever is higher *plus* one half of the total duty.	..	..	March 31st, 1951.
			(ii) containing no artificial silk or not more than 10 per cent. artificial silk.	75 per cent. *ad valorem*.	..	..	March 31st, 1951.
			48(5) Fabrics, not otherwise specified containing not more than 10 per cent. silk but more than 10 per cent. and not more than 90% artificial silk.				
			(a) containing 50 per cent. or more cotton.	..	30 per cent. *ad valorem* or 2 annas per square yard, whichever is higher *plus* one half of the total duty.	50 per cent. *ad valorem* or $3\frac{1}{4}$ annas per square yard, whichever is higher *plus* one half of the total duty.	March 31st, 1951.
			(b) containing no cotton or containing less than 50 per cent. cotton.	..	30 per cent. *ad valorem* or $2\frac{1}{2}$ annas per square yard, whichever is higher *plus* one half of the total duty.	50 per cent. *ad valorem* or 4 annas per square yard, whichever is higher *plus* one half of the total duty.	March 31st, 1951.

1	2	3	4	5	6	7	8
			48(7) Fabrics, not otherwise specified containing not more than 10 per cent. silk or 10 per cent. artificial silk or 10 per cent. wool, but containing more than 50 per cent. cotton and not more than 90 per cent. cotton.	..	$37\frac{1}{2}$ per cent. *ad valorem*.	75 per cent. *ad valorem*.	March 31st, 1951.
5	Batteries for motor vehicles.	November 4th, 1948.	73(15) Batteries for motor vehicles (including batteries which are interchangeable for automobile purposes on the one hand and radio, telephone and telegraph on the other) and plates for such batteries.	..	80 per cent. *ad valorem*.	Preferential rate of duty actually charged for the time being for such products of United Kingdom origin *plus* six per cent. *ad valorem*.	December 31st, 1951.
6	Bichromates .	April 8th1, 1947.	28(17) Potassium Bichromate, Sodium Bichromate and all chrome compounds.	30 per cent. *ad valorem*.	..	..	December 31st, 1952.
7	Bicycles .	April 18th, 1947.	75(5) Cycles (other than motor cycles) imported entire or in sections.	..	60 per cent. *ad valorem*.	70 per cent. *ad valorem*.	March 31st 1952.
			75(6) Frames for cycles (other than motor cycles).	..	60 per cent. *ad valorem*.	70 per cent. *ad valorem*.	March 31st, 1952.
			75(7) Handle-bars for cycles (other than motor cycles).	..	60 per cent. *ad valorem*.	70 per cent. *ad valorem*.	March 31st, 1952.
			75(8) All other parts and accessories of cycles (other than motor cycles) not otherwise specified (excluding rubber tyres and tubes).	..	60 per cent. *ad valorem*.	70 per cent. *ad valorem*.	March 31st, 1952.
8	Belting .	September 24th, 1948.	50(3) Cotton, hair and canvas ply belting for machinery.	$7\frac{1}{2}$ per cent. *ad valorem*.	..	..	December 31st, 1951.

1	2	3	4	5	6	7	8
9	Calcium Chloride	April 18th, 1947.	28(15) Calcium Chloride (Provided that calcium chloride manufactured in a British Colony shall be deemed to be of British manufacture).	..	Rs. 3-4-0 per cwt.	Rs. 4-14-0 per cwt.	December 31st, 1951.
10	Coated abrasives	April 18th, 1947.	30(9) Abrasive papers and rolls, coils, discs, belts, shapes and tapes made of abrasive paper, when imported as stores apart from machinery.	..	24 per cent. *ad valorem*.	36 per cent. *ad valorem*.	December 31st, 1952.
			30(10) Emery cloth and abrasive rolls, coils, discs, belts, shapes and tapes, made of emery cloth or a combination of emery cloth and paper, when imported as stores apart from machinery.	35 per cent. *ad valorem*.	..	..	December 31st, 1952.
11	Cocoa powder and Chocolate.	April 18th, 1947.	18 Cocoa and chocolate other than confectionery.	30 per cent. *ad valorem*.	..	..	December 31st, 1952.
12	Cotton Textile Machinery.	February 24th, 1950.	72(34) The following cotton textile machinery and apparatus and parts thereof, by whatever power operated, namely spinning ring frames, spinning rings, spindles and plain looms.	10 per cent. *ad valorem*.	..	..	March 31st, 1953.
13	Dry batteries	September 24th, 1948.	73(7) Dry batteries	30 per cent. *ad valorem*.	..	..	December 31st, 1951.
14	Electric motors.	September 24th, 1948.	72(14) The following electric motors and component parts thereof but excluding control gear for the same namely :— Squirrel cage induction motors of a brake-horse power not exceeding 20 including fractional brake horse-power :	10 per cent. *ad valorem*.	..	..	December 31st, 1953.

1	2	3	4	5	6	7	8
			Provided that only such articles shall be deemed to be component parts as are essential for the working of the electric motors and have been given for that purpose some special shape or quality which would not be essential for their use for any other purpose.				
15	Ferro-silicon	September 24th, 1948.	63(35) Ferro-silicon	$18\frac{3}{4}$ per cent. *ad valorem.*	. .	. .	December 31st, 1951.
16	Glucose .	September 24th, 1948.	21(3) Glucose other than glucose prepared for medicinal 'purposes .	30 per cent. *ad valorem.*	. .	. .	December 31st, 1951.
17	Grinding wheels	January 12th, 1948.	71(8) Grinding wheesa nd segments .	100 per cent. *ad valorem.*	. .	. .	December 31st, 1950.
18	Hurricane Lanterns.	April 18th, 1947.	71(7) Hurricane lanterns	30 per cent. *ad valorem.*	. .	. .	December 31st, 1952.
19	Non-ferrous Metals.	September 24th, 1948.	64 Copper, wrought and manufactures of copper, all sorts, not otherwise specified.	. .	24 per cent. *ad valorem.*	36 per cent. *ad valorem.*	December 31st, 1951.
			64(1) Copper, scrap	Free of duty.			
			64(2) Copper unwrought, ingots, blooms, slabs, cakes, ties, blocks, bricks, billets, cathodes, blister, bars (electrolytic wire bars). . .	Free of duty.			
			64(3) Copper rods, other than electrolytic copper rods.	. .	35 per cent. *ad valorem.*	45 per cent. *ad valorem.*	December 31st, 1951.
			64(4) Electrolytic copper rods or black copper rods (in coils).	. .	20 per cent. *ad valorem.*	30 per cent. *ad valorem.*	December 31st, 1951.

1	2	3	4	5	6	7	8
			65 All non-ferrous nickel alloys including German silver, nickel silver and cupro-nickel.				
			(*a*) containing 40 per cent or less by weight of nickel.	30 per cent. *ad valorem.*	. .	. .	December 31st, 1951.
			65(1) Nickel, pellets, cakes, slabs, annodes, shorts, blocks, granules and scraps.	Free of duty			
			67 Lead, wrought—the following articles, namely, pipes, tubes and sections .	30 per cent. *ad valorem.*	. .	. .	December 31st, 1951.
			67(1) Lead sheets for tea chests	30 per cent. *ad valorem.*	. .	. .	December 31st, 1951.
			67(2) Lead sheets other than sheets for tea chests.	20 per cent. *ad valorem.*	. .	. .	mber 31st, 1.
			67(3) Lead ingots, pigs and lead scrap.	Free of duty			
			68 Zinc or spelter, wrought or manufactured, not otherwise specified.	30 per cent. *ad valorem.*	. .	. .	December 31st, 1951:
			68(1) Zinc, unwrought, including cakes, bars, blocks, ingots, tiles (other than boiler tiles), hard or soft slabs, and plates, dust, dross and ashes, and broken zinc.	Free of duty			
			68(2) Zinc sheets not otherwise specified.	20 per cent. *ad valorem.*	. .	. .	December 31st, 1951.
			68(3) Mazak or alloys of zinc and aluminium containing not less than 94 per cent zinc.	Free of duty			
			69 Tin, block	Free of duty			
			69(1) Tin scrap and tinplate scrap	Free of duty			
			69(2) Tin solders, white metal and antifriction alloys.	30 per cent. *ad valorem.*	. .	. .	December 1951.
			70 Brass, wrought and manufactures thereof not otherwise specified.	30 per cent. *ad valorem.*	. .	. .	December 31st, 1951.
			70(1) All non-ferrous alloys and manufactures of metals and alloys not otherwise specified.	30 per cent *ad valorem.*	. .	. .	December 31st, 1951.

	2	3	4	5	6	7	8
			70(4) Brass, unwrought, ingots, billets, cakes, slabs, blooms (excluding scrap) that is to say, ingots, etc., containing (1) copper 55 to 74 per cent. (2) zinc 26 to 42 per cent. and (3) components other than copper and zinc including impurities not exceeding 3 per cent. of which not more than one-half should be tin.	10 per cent. *ad valorem.*	..	..	December 31st, 1951.
			70(5) Brass wires and rods	35 per cent. *ad valorem.*	..	..	December 31st, 1951.
			70(6) Yellow metal alloys other than brass, such as gun-metal, bronze, bell-metal, and phospor-bronze and manufactures thereof not otherwise specified.	30 per cent. *ad valorem.*	..	..	December 31st, 1951.
			70(7) Cobalt, chromium, tungsten, magnesium and all other non-ferrous virgin metal not otherwise specified.	Free of duty			
			70(8) All non-ferrous metal scraps and scraps of alloys of non-ferrous metals not otherwise specified.	Free of duty	..	..	
			70(9) Type metal	30 per cent. *ad valorem.*			December 31st, 1951.
			72(12) Bare, hard, drawn or annealed electrolytic copper wires and cables of all sizes, solid or stranded and A.C.S.R. (aluminium conductor steel reinforced).	30 per cent. *ad valorem.*	..	..	December 31st, 1951.
	Oleic acid and Stearic acid.	September 24th, 1948.	28(20) Acid oleic and acid stearic, or any product containing 60 per cent. or more of these free fatty acids.	30 per cent. *ad valorem.*	..	..	December 31st, 1951.
	Pickers . .	April 1st, 1949.	72(33) Pickers used in textile industries.	10 per cent. *ad valorem.*	..	..	March 31st, 1951.
22	Photo-chemicals.	April 18th, 1947.	28(18) The following sodium compounds, namely :—				
			(*b*) Sodium sulphite . . .	..	Rs. 23 per cwt.	Rs. 26 per cwt.	December 31st, 1951.
			(*c*) Sodium bisulphite . .	..	Rs. 19 per cwt.	Rs. 21-8-0 per cwt.	December 31st, 1951.
			(*d*) Sodium thiosulphate . .	..	Rs. 13 per cwt.	Rs. 15-8-0 per cwt.	December 31st., 1951.
			(Provided that the articles dutiable under sub items (*b*), (*c*) and (*d*) manufactured in a British Colony shall be deemed to be of British manufacture).				
23	Plastics	January 7th, 1950.	73(16) Electrical accessories made of plastics, such as wall plugs, switches, ceiling roses and lamp holders.	..	30 per cent. *ad valorem.*	40 per cent. *ad valorem.*	December 31st, 1952.
			82(2) Phenol-formaldehyde moulding powder.	30 per cent. *ad valorem*	..	..	December 31st, 1952.
24	Plywood and tea chests.	September 24th, 1948.	40(4) Plywood including plywood panels for tea chests.	30 per cent. *ad valorem.*	..	..	December 31st, 1951.
			40(5) Battens for tea chests . .	30 per cent. *ad valorem*	..	..	December 31st, 1951.
25	Preserved fruits	January 12th, 1948.	8(3) Fruits, candied and crystallised .	80 per cent. *ad valorem.*	..	..	March 31st, 1951.
			20(1) Fruit juices, squashes, cordials, and syrups, not otherwise specified.	..	30 per cent. *ad valorem.*	40 per cent. *ad valorem.*	March 31st, 1951.
			20(3) Fruits, canned, bottled or otherwise packed, not otherwise specified.	..	50 per cent. *ad valorem.*	60 per cent. *ad valorem.*	March 31st, 1951.
			20(4) Jams, jellies and marmalades, canned, bottled or otherwise packed.	80 per cent. *ad valorem.*	..	..	March 31st, 1951.
			20(5) Juices either individually or in mixture, of the following fruits, namely : apricots, berries, grapes, pineapples, plums and prunes.	..	34 per cent. *ad valorem.*	Rate of duty as actually charged at the time for manufactures in a British Colony *plus* 6 per cent. *ad valorem.*	March. 31st, 1951.

1	2	3	4	5	6	7	8
			20 (8) The following fruits, canned or otherwise packed, namely: apricots, berries, grapes, plums and prunes, and fruit salads composed not less than 80 per cent. in quantity and in value of the above named fruits.	..	54 per cent. *ad valorem.*	Rate of duty actually charged at the time for manufactures in a British Colony *plus* 6 per cent. *ad valorem.*	March 31st, 1951.
			20(9) Pineapples, canned or otherwise packed.	..	52 per cent. *ad valorem.*	Rate of duty actually charged at the time for manufactures in a British Colony *plus* 6 per cent *ad valorem.*	March 31st, 1951.
26	Sewing machines	April 18th, 1947.	72 (11) Sewing machines (and parts thereof) to be worked by manual labour or which require for their operation less than one quarter of one-brake-horse-power.	..	24 per cent. *ad valorem.*	36 per cent. *ad valorem*	December 31st, 1953.
27	Sheet glass	April 24th, 1950.	60 (7) Sheet glass	45 per cent *ad valorem.*	..	..	December 31st, 1952.
28	Soda ash	February 22nd, 1950	28 (4) Soda ash including calcined natural soda and manufactured sesquicarbonates.	..	40 per cent. *ad valorem*	50 per cent. *ad valorem*	December 31st, 1952.

1	2	3	4	5	6	7	8
29	**Starch**	**September, 24th, 1948**					
		(*February) 24th, 1950	11(2) *Sago flour.	20 per cent. *ad valorem.*	..	..	March 31st, 1952.
			11(4) Starch	20 per cent. *ad valorem.*	..	..	March 31st, 1952.
			11(5) Farina	20 per cent. *ad valorem.*	..	..	March 31st, 1952
30	Steel baling hoops.	Conditional protection. The rates shown against this item shall be brought into force on the date on which a notification is issued to that effect by the Central Government. Till then, the duties shown against item No.63 (14) will apply.	63(34) Iron or steel hoops (a) Jute baling hoops	..	30 per cent. *ad valorem.*	40 per cent. *ad valorem.*	December 31st, 1951.
			(b) Cotton baling hoops	..	30 per cent. *ad valorem.*	40 per cent *ad valorem.*	December 31st, 1951.

1	2	3	4	5	6	7	8
31	Textile manufactures.	1934—41	Textile manufactures, the following articles when made wholly or mainly of any of the fabrics specified (a) Items No. 48, 48 (1), 48 (4), 48 (5), or 48 (7).	The *ad valorem* rates of duty applicable to the fabric of which the article is wholly or mainly made.	..	..	The duration applicable to the fabric of which the article is wholly or mainly made.
32	Wood Screws	April 18th, 1947.	63 (33) Iron or steel wood screws	30 per cent. *ad valorem.*	..	..	December 31st, 1951.
33	Phosphoric Acid and Phosphates	April 18th, 1947	28 (16) Phosphoric Acid . . 28 (18) Sodium Phosphates	Rs. 23 per cwt. ..	.. Rs. 7/6 per cwt.	.. Rs. 11 per cwt.	March 31st, 1950. Deprotected since March 31st, 1950.
34	Potassium permanganate.	September 24th, 1948.	28 (19) Potassium permanganate. .	30 per cent. *ad valorem*	..	..	March 31st, 1950. Deprotected from March 31st, 1950.
35	Steel belt lacing	September 24th, 1948.	72 (13) Steel belt lacings. . .	10 per cent. *ad valorem*	..	..	March 31st, 1950. Deprotected from March 31st, 1950.

APPENDIX VII

APPENDIX

Summary of the Estimates of Capital Expenditure

(i) A Plan of Economic Development

Period of the plan	Estimate of Capital Requirements (Rs. Crore)		Break-up of Capital Requirements					
			Agriculture (Rs. Crore)			Communications (Rs. Crore)		
15 Years	At 1950 prices	At pre war prices		1,240*			940*	
				N.R.	R.		N. R.	R.
	38,900*†	10,000*	Soil Conservation etc.	200	10	Railways	434	9
			Working Capital	..	250	Roads New Construction	300	35
						Roads reconstruction	113	..
			Irrigation Canals	400	10	Ports	50	5
			Wells	50	..			
			Model Farms	195	130			

N.R.—Non-recurring.

R —Recurring.

* Including recurring and non-recurring expenditure.

† Adjusted on the basis of the Wholesale Price Index (Base : Year ended Aug. 1939=100) compiled by the Office of the Economic Adviser, to the Government of India.

VII

NECESSARY FOR INDIA IN THE NEXT FEW YEARS

for India (*The Bombay Plan*)**

ments into different sectors

Education (Rs. Crore)			Health (Rs. Crore)			Industry (Rs. Crore)	Housing (Rs. Crore)	Miscellaneous (Rs. Crore)
	490*			450*		4,480*	2,200*	200*
	N.R.	R.		N.R.	R.			
Primary .	86	88	Sanitation Water Supply	100	7·5			
Adult .	99	..						
Secondary	82	129	Rural Dispensaries	132	141·9			
University Scientific Research	..	20 Average	General Hospitals	22	16·5			
			Maternity Clinics	8	6·6			
			Specialized Institutions	19	12·5			

** By Sir Purshotamdas Thakurdas,
J. R. D. Tata,
G. D. Birla,
Sir Sri Ram,
Kasturbai Lalbhai,
A. D. Shroff & John Matthai.
(Available at the New Book Co., Bombay. Price one Rupee).

(ii) The Gandhian Plan By S. N. Agarwal (1944)**

Break-up of Capital Requirements into different sectors

Period of the plan	Estimate of Capital Requirements (Rs. Crore) At 1950 prices	Estimate of Capital Requirements (Rs. Crore) At 1944 prices	Agriculture (Rs. Crore)	Rural Industries (Rs. Crore)	Key Industries (Rs. Crore)	Transport (Rs. Crore)	Public Health (Rs. Crore)	Education (Rs. Crore)	Research (Rs. Crore)
10 Years	5,590*	3,500	1,175	350	1,000	400	260	295	20

Agriculture (Rs. Crore) — 1,175

	A	B
Nationalization of land	200	..
Land Reclamation	350	5
Soil Erosion	100	5
Irrigation	175	5
Experimental Farms	100	25
Credit Facilities	250	..

Rural Industries (Rs. Crore) — 350

	A	B
Credit Facilities for Rural Industries	350	..

Key Industries (Rs. Crore) — 1,000

	A	B
Purchase of Foreign Industrial concerns and Indian Key Industries by the State	500	..
Development of Basic Industries including defence	500	..

Transport (Rs. Crore) — 400

	A	B
Railways	200	5
Roads	100	5
Coastal shipping & Marine Mercantile	75	5
Air Navigation, Posts & Telegraphs	25	..

Public Health (Rs. Crore) — 260

	A	B
Village Dispensaries	75	35
General Hospitals	15	5
Special Hospitals	10	..
Sanitation, Water Supply and Housing	160	5

Education (Rs. Crore) — 295

	A	B
Basic Education	100	25
Secondary Education	50	20
Adult Education	70	..
University Education	..	5
Training the Personnel	75	50

Research (Rs. Crore) — 20

A Non-Recurring Expenditure.

B Recurring Expenditure.

* Adjusted on the basis of the wholesale Price Index (Base : Year ended Aug. 1939=100) compiled by the Office of the Economic Adviser to the Government of India.

** Published by the Padma publications, Ltd., Bombay (Price Rs. 2-8-0).

(iii) The People Plan for Economic Development of India (1944)*

Break-up of Capital Requirements into different sectors.

Period of the plan	Estimate of Capital Requirements (Rs. Crore) At 1950 prices	Estimate of Capital Requirements (Rs. Crore) At 1944 prices	Agriculture (Rs. Crore)	Industry (Rs. Crore)	Communications (Rs. Crore)	Health (Rs. Crore)	Education (Rs. Crore)	Housing (Rs. Crore)
10 Years	23,950**	15,000 (***)	2,950***	5,600***	1,500***	760***	1,040***	3,150***

Agriculture (Rs. Crore) — 2,950***

	A	C
Reclamation of land	600	..
Irrigation	600	15
State Farms	375	123
Soil conservation and development of forests	300	15
Rural Industries	200	..
Manures, Seeds, etc.	720	..

Industry (Rs. Crore) — 5,600***

	A
Consumers' goods Industry	3,000
Basic Industry	2,600

Communications (Rs. Crore) — 1,500***

	A	D
Railways	595	11
Roads (New)	450	53
Metalling present unmetalled roads	100	..
Shipping	125	6
Ports	50	5
Inland Navigation	50	5
Post, Telegraphs etc.,	50	..

Health (Rs. Crore) — 760***

	A	B
Village dispensaries	100	137·5
Hospitals in urban areas	30	25
City hospitals	15	14·8
Maternity and Child Welfare Centres	..	2
Special Hospitals	86·4	48·6
Rural water supply and sanitation	50	..
Urban water supply and sanitation	50	..

Education (Rs. Crore) — 1,040***

	A	B
Rural Primary Schools	91	160
Rural Middle Schools	42	93
Rural High Schools	60	54·5
Urban Primary	21	37
Urban Middle	10·5	22
Urban High Schools	24	20
University and Technical Education	40	..
Training of Technicians	150	..
Rural Cultural Centres	125	75
Urban Cultural Centres	9·5	5·5

Housing (Rs. Crore) — 3,150***

	A	B
Rural Housing	2,700	..
Urban Housing	400	50

A Capital Expenditure.
B Current Expenditure.
C Recurring Expenditure.
D Maintenance Expenditure.

*Report prepared in 1944 by the Post-war Reconstruction Committee of the Indian Federation of Labour consisting of B. N. Benerjee, G. D. Parikh, V. N. Tarkunde. Published by A. K. Mukerjee Secretary, I. F. L. 20. Faiz Bazar, Delhi. (Price One Rupee).

** Adjusted on the basis of the wholesale Price Index (Base: Year ended August 1939-100) compiled by the office of the Economic Adviser to the Government of India.

*** Including All Expenditure.

(iv) The Birla Plan (1947)*

Break-up of Capital Requirements into different Sectors

Period of Plan	Estimate of Capital Requirements (Rs. Crore) At 1950 Prices	At 1947 Prices	Agriculture (Rs. Crore)		Afforestation (Rs. Crore)	Industry and Mining (Rs. Crore)		Power (Rs. Crore)	Transport and Communication (Rs. Crore)		Social (Rs. Crore)		Tourist Traffic (Rs. Crore)	
5 Years	1,594†	1,220	346		7	428		50	260		125		5	
			Cultivation	70		Textiles	20	Hydro-electrical and Thermal Power Projects	Railways	130	Labour Housing	82	Development of Hill Stations, etc.	5
			Irrigation	75		Steel	70		Roads	75	Hospitals Educational Buildings & Sanitation	43		
			Multipurpose Projects	100		Fertilizers	52		Communication	20				
			Improved Varieties	3·5		Chemicals	40		Shipping and Ship-Building	35				
			Sugar-cane	22.5		Electrical Goods	10							
			Cotton	75		Capital Goods	50							
						Sugar & Gur	24							
						Paper	22							
						Cement	28							
						Miscellaneous	50							
						Cottage Industries	50							
						Coal	12							

*"Outline of a Five-year Plan, 1947" Hindustan Times Press, New Delhi.

†Adjusted on the basis of the wholesale Price Index (Base: Year ended Aug. 1939=100) Compiled by the office of the Economic Adviser to the Government of India.

(v) Kharegat Plan (Development of Agriculture and Animal Husbandry in India)*

Break-up of Capital Requirements into different Sectors

Period of the Plan	Estimate of Capital Requirements (Rs. Crore) At 1950 Prices	At Pre-war Prices	Agricultural Products (Rs. Crore)			Fruit and Fruit Products (Rs. Crore)			Animal Products (Rs. Crore)		
15 Years	3,890†	1,000	838.5			3			77·2		
				A	B		A	B		A	B
			Waste land Reclamation	200	..	Storage	3	..	Feeding	50	100
			Land Erosion	50	..	Fruit Products Institute	..	75	Breeding	1·2	..
			Soil Studies	..	60				Management	1	5
			Land Utilisation	2·5	50				Disease Control	10	200
			Irrigation:—						Marketing	15	100
			Canals	200	..						
			Tanks	102	10						
			Bunding	30	..						
			Drainage	100	..						
			Manure	40	..						
			Seed	12	..						
			Implements	1	..						
			Marketing	100	100						
			Protection	1	..						

Fisheries			Plant Husbandry (Organisation)		Animal Husbandry (Organisation)		Others (Rs. Crore)	
Rs. 20 (Lakhs)			..		..		81·1	
	A	B		B		B		A
Fisheries Research Station	·2	5	Federal Organisation	130	Federal H.Q.	3	Cost of Survey	1
Experimental work on Marine Fisheries	..	1	Grants for Research etc.	75	Federal Animal Husbandry Research Institute	20	Other essential schemes, building equipment, etc.	80·1
			Scholarship	25	Commodity Research Stations	35		
			Provincial H.Q. Staff	30	Provincial H.Q. Staff	10		
			Provincial H.Q. Research & Experimental farms	60	Livestock Research and Breeding farms	35		
			Propaganda & Demonstration	60	Education	18		
			Agricultural Education	20	Veterinary Hospital	40		
			Provincial Extension staff	300	Extension Establishment	200		
			Village Guides	800				

*Plan finalised by the Advisory Board of the Imperial Council of Agricultural Research in 1944· Published by the Manager of Publications, Delhi.

†Adjusted on the basis of the Whole sale Price Index (Base: year ended Aug. 1939=100) Compiled by the office of the Economic Adviser to the Government of India.

A—Capital Expenditure in crores of Rupees.

B—Recurring Expenditure in lakhs of Rupees.

APPENDIX VIII

STANDING COMMITTEE OF THE CENTRAL ADVISORY COUNCIL OF INDUSTRIES (12TH AND 13TH NOVEMBER, 1949)

RESOLUTION I

This Conference considers that the immediate problems to be faced are:—

(a) increase of production, reduction of cost and improvement of quality;

(b) increase in the efficiency of labour, management, and organisation of the industry as a whole; and

(c) improvement of the marketing of the products both at home and abroad.

2. This Conference recommends the immediate constitution of Working Parties which should, after careful objective study of these problems, make recommendations capable of being implemented within the existing structure of Industries. Such Working Parties should, in the first instance, be constituted to enquire into and report on the Cotton Textile, Coal, Heavy Engineering.

3. The Working Parties should ordinarily consist of two representatives of the Industry concerned, two representatives of Labour employed in the Industry and three persons nominated by Government, one of whom shall be the Chairman. Suitable representatives of Industry and Labour should be appointed by Government in consultation with their respective organisations where such exist. Experts, Indian or foreign, will be appointed by Government where necessary, and subject to the approval of Government, Committees may be constituted by the Working Parties to deal with special problems.

4. The Terms of Reference of the Working Parties should be to examine and to make recommendations within six months on—

(a) measures necessary to achieve increase of production in the industry;

(b) measures for reducing costs of production;

(c) measures for improving the quality of products;

(d) measures to improve the efficiency of labour, management and organisation of the industry as a whole;

(e) measures to achieve rationalisation of the industry; and

(f) measures for better marketing of the products of industry at home and abroad.

APPENDIX IX

SUMMARY OF THE TARIFF

[The summary covers both the Import and Export Schedules. The standard and the preferential rates as well as the protective and GATT rates are shown within brackets. In the expression '*ad valorem*' used in this summary, reference is to the real value as defined in section 30 of the Sea Customs Act unless an article has a tariff value assigned to it. The expression 'standard rate of duty' (St) means in the case of articles liable to preferential rates of duty, the standard rate of duty as distinguished from the preferential rate (Pref.) and in the case of other articles, the ordinary rate of duty. Against the articles covered by the GATT, the word GATT is used.]

Import Schedule

Live Animals and Products of the Animal Kingdom. Items Nos. 1-5(2). This section consists of living animals (free); fish (30 per cent.); ghee (30 per cent.); milk, butter, cheese (25 per cent. GATT); coral (30 per cent.); and unmanufactured ivory (36 per cent.—24 per cent. colonial Pref.) Section I

Products of the Vegetable Kingdom. Items Nos. 6-14. This section includes a number of GATT and Pref. (col) items. Gram and pulse, rice, wheat, wheat flour, rubber seeds, hops, stick or seed lac, and barks for tanning are all free items. A general duty of 36 per cent. standard and 24 per cent. (Col. Pref.) *ad valorem* is leviable in respect of vegetables, fruits, coffee canned or bottled and oilseeds non-essential. The following are GATT items:—Fresh apples, pears, prunes and grapes (30 per cent.); cardamoms, cinnamon, cloves, nutmegs and pepper (54 per cent. St. and 45 per cent. Col. Pref.); currants (Re. 1 per cwt.); cassia lignea (50 per cent. St—45 per cent. Col Pref.); grass and clover seeds (15 per cent.); gums, arabic benjamin and damar (36 per cent. St.—24 per cent. Col. Pref.); cochineal (20 per cent.); rosin (24 per cent.); and dehydrated vegetables (30 per cent. St.—24 per cent. C.P.)* Section II

There is a specific duty of 6 as. per lb. on tea, 7½ as. per lb. on betelnuts and 25 per cent. *ad valorem* plus 1 anna per lb. plus 1/5th of the total duty on coffee.

* C.P.—British Colonial Preference.

There are four protective items in this group *e.g.*, fruits candied and crystallised (80 per cent.), starch (20 per cent.), farina (20 per cent.) and sago flour (20 per cent.).

Section III *Fatty Substances. Greases, Oils and Products of their Decomposition; Prepared Alimentary Fats; Waxes of animal or Vegetable origin. Items Nos.* 15-15(12). Most of the items included in this group are GATT items. The duty on wax, grease, animal fat, bees wax and animal oils is 30 per cent. Vegetable non-essential oils are assessable at 42 per cent. St. 30 per cent. C.P. The duty on mineral grease which is a GATT item is 27 per cent.

Section IV *Products of the Food Preparing Industries, Beverages, Alcoholic Liquors and Vinegars; Tobacco. Items Nos.* 16-24 (3). *Ad valorem* duties ranging from 20 per cent. to 60 per cent. are charged in respect of canned fish and meat (GATT), canned bacon, ham and lard, biscuits, cocoa, glucose, canned soup and confectionery. Fermented liquors such as ale, beer, porter, cider, etc., wines, spirits such as brandy, whisky and gin, and medicines containing spirit are all subjected to high rates of specific duty. The duty on spirits (whiskey etc.) is as high as Rs. 75 per proof gallon. Cigarette (37½ per cent. plus Rs. 39/1/- per 1,000 or Rs. 15/10/- per lb. whichever is higher), manufactured tobacco (Rs. 16/4/- per lb.) and unmanufactured tobacco (GATT—Rs. 9/6/- per lb.) are all subject to high rates of specific duty.

This section also includes a number of items which are subject to protective rates of duty, *e.g.*, jams and marmalades canned (80 per cent.); fruit juices, squashes, and cordials (40 per cent. St. & 30 per cent. Br. colony); canned or bottled fruits NOS (60 St. 50 per cent. Br. col-GATT), canned pineapples (GATT), Glucose (30 per cent.) and mixture of specified fruit juices.

Section V *Mineral Products. Items Nos.* 25-27(9). Majority of the items of this group are subject to specific rates of duty *e.g.*, kerosene (3 as. per I.G.) Motor spirit (15 as. per I.G.), Lubricating oil (2½ annas per I.G.), and Portland cement (Rs. 16/8/- per ton). The other mineral oils, asphalt, crude and refined coal tar and pitch, are liable to an *ad valorem* duty of 27 per cent. (GATT). Metallic ore is a free item.

Section VI *Chemical and Pharmaceutical Products; Colours and Varnishes, Perfumery, Soap, Candles and the like; Glues and Gelatines; Explosives; Fertilisers. Items Nos.* 28-35(1). This is an important section which includes protective, preferential and GATT items. The general duty on chemicals,

drugs and medicines is 36 per cent. St. and 26 per cent. British and Col. Pref. There is an *ad valorem* duty of 30 per cent. on acids, potassium and sodium compounds; bleaching powder, sulphur and antiplague serum are all free items. Codliver oil (less than 14 lbs. packing), iodine in crude form, lactose, penicillin and sulpha drugs are all GATT items assessable at 30 per cent. St. and 24 per cent. Pref. Toilet requisites (37½ per cent.), coal tar dyes (12 per cent. GATT), paints, colours and painters' materials (36 per cent.—24 per cent. Br. Pref. GATT), lead pencils (25 per cent. or 1 anna per dozen whichever is higher plus 1/5th), natural and synthetic essential oils (30 per cent.), explosives (30 per cent.), fire works (75 per cent.), are the other important items of this group. Manure is a free item.

The items subject to protective duty in this section are calcium chloride, potassium bichromate, sodium bichromate and all chrome compounds (30 per cent.), sodium phosphates, sulphite, bisulphite and thiosulphate (specific duty), stearic and oleic acids (30 per cent.), emery cloth and abrasive materials (30 per cent.) and matches (Excise duty plus a specific duty).

Hides, Skins, Leather, Fur skins, and manufactures of these materials. Items Nos. 36-38.—Raw hides and skins are free items and other manufactures of leather are subject to an *ad valorem* duty of 30 per cent. Section VII

Rubber and articles made of rubber. Items Nos. 39-39(1).—This section includes raw rubber (free) and manufactures of rubber (30 per cent). Section VIII

Wood and cork and wares of these materials; Goods made of Plaiting Materials. Items Nos. 40-42.—This section includes 2 protective items [tea chests (30 per cent.) and battens for tea chests (30 per cent.)], 2 GATT items [wood and timber (30 per cent.) and Douglas Fir (20 per cent.)] and six revenue items [wood and timber (30 per cent.), Furniture and cork manufacture (30 per cent.)]. Section IX

Paper and its applications. Items Nos. 43-45(3).—The general duty on paper and stationery is 37½ per cent. but the duty on paste board and complete fountain pens (GATT) is 30 per cent. Newsprint is subject to a low specific duty and printed book is a free item. Section X

Textile Materials and Textile Goods. Items Nos. 46-53 (2).—This group comprises, raw cotton (2 as. per lb.), raw Section XI

wool (free), raw silk (30 per cent. plus Rs. 15/12/- per lb. Protective), cotton yarn (free), woollen yarn (30 per cent.), silk yarn (30 per cent. plus a specific duty), unmanufactured textile materials such as raw jute, flax and hemp, manufactures made wholly or partly of cotton, wool, silk, art silk, hemp, flax or jute and apparel (30 per cent.).

Raw silk, waste silk, silk yarn, silk fabrics (containing more than 90 per cent. of silk) and mixed fabrics are all subject to protective rates of duty (*ad valorem* duty plus specific duty). Cotton, hair and canvas ply belting for machinery is also a protective item subject to a duty of 7½ per cent. The duty on woollen fabrics is 25 per cent. plus Rs. 1/2/- per lb. plus 1/5th total duty and the average duty on cotton fabrics is about 60 per cent. (Standard) and 15 per cent. or 18 per cent. (British Manufacture). The knitted fabrics (cotton and wool) are subject to an *ad valorem* or an alternative specific duty. Apparel, hosiery and haberdashery are subject to a flat rate of 30 per cent. *ad valorem*: Ribbons (50 per cent.), cotton and linen lace and trimmings (25 per cent.) and linen embroideries (25 per cent.) are all GATT items.

Section XII *Footwear, Hats, Umbrellas and Parasols, Articles of Fashion. Items Nos.* 54-57.—Boots and shoes and umbrellas are subject to 30 per cent. *ad valorem* or an alternative specific duty. Hats, caps, fezes, straw hat (30 per cent.) are all GATT items.

Section XIII *Wares of Stone and other Mineral Materials, Ceramic Products, Glass and Glass ware. Items Nos.* 58-60(6).—The average rate of duty on articles included in this group are: stones and marble article (30 per cent.); asbestos manufactures and engine and boiler packing (30 per cent.); earthen ware articles (35 per cent.); glassware articles (37½ per cent.) and sanitary ware (30 per cent.). Domestic earthen ware is subject to an *ad valorem* duty of 35 per cent. or an alternative specific duty. The GATT items included in this section are glass bulbs (60 per cent.), glass bangles (60 per cent.) and glass beads (50 per cent.).

Section XIV *Real Pearls, Precious Stones, Precious Metals and Wares of those Materials, Coin (specie). Items Nos.* 61-62(2).—Silver and gold bullion is subject to a specific duty of 4 as. per ounce and Rs. 12/8/- per tola respectively; silver and gold manufactures, jewellery and jewels are chargeable at the rate of 60 per cent. *ad valorem*. The duty on plated ware is 75 per cent. and cut and unset precious stones are subject to 30 per cent. duty.

Base Metals and Articles made therefrom. Items Nos. 63-71(7).—On most of the iron or steel articles there is a specific duty with an alternative *ad valorem* duty. The duty on pig iron is 18¾ per cent. and steel ingots, billets and blooms are chargeable either at the specific rate (Excise duty) or 18¾ per cent. There is a specific rate of duty on iron or steel structures, steel tin plates, bolts and nuts, steel rivets, Railway track materials etc. with an alternative *ad valorem* duty in certain cases. Iron or steel pipes and pipe fittings (18¾ per cent.), washers (18¾ per cent.), hoops and strips (24 per cent. St. and 12 per cent. Br. Pref.), barbed or stranded wires (24 per cent. St. and 12 per cent. Br. Pref.) and other manufactures of steel or iron (30 per cent.) are the other important *ad valorem* items of this group. Section XV

The protective items in this section are iron or steel wood screws (30 per cent.), baling hoops, ferro-silicon, copper wrought and manufactures (36 per cent. St. and 24 per cent. Br. Pref.), copper rods, electrolytic copper rods (30 per cent.), lead pipes, tubes and sections (30 per cent.), lead sheets (20 per cent.), zinc sheets (20 per cent.), zinc wrought (30 per cent.), tin solders, white metal and antifriction alloys (30 per cent.), brass unwrought (10 per cent.), brass wires and rods (35 per cent.), all non-ferrous alloys and manufactures (30 per cent.), yellow metal alloys other than brass (30 per cent.), type metal (30 per cent.), and hurricane lanterns (30 per cent.): cutlery and hardware are chargeable at the rate of 37½ per cent. and 30 per cent. respectively.

Machinery and Apparatus: Electrical Material. Items Nos. 71(8)-73(15).—The general rate of duty on machinery is 5 per cent. The duty on machinery covered by the GATT such as sugar manufacturing and refining machinery, refrigerating machinery, oil crushing and refining machinery, cinema projecting apparatus etc. is 5 per cent. Agricultural implements such as winnowers, threshers, ploughs, agricultural tractors, sprayers, hay presses, and dairy and poultry farming appliances are all free items (GATT). Printing and Textile machinery with certain exceptions are charged at 5 per cent. rate. Electrical instruments and appliances are preferential items subject to a duty of 36 per cent. St. and 24 per cent. Br. Pref. The rate of duty on telegraphic and telephonic instruments is 30 per cent. and the duty on complete wireless receivers is 50 per cent. St. and 44 per cent. Br. Pref. (GATT). Rubber insulated cables and copper wires (high tension) are however chargeable at 7½ per cent. *ad valorem*. Section XVI

The protective items in this section are grinding wheel and segments (100 per cent.), sewing machines (36 per cent. St. and 24 per cent. Br. Pref.), bare hard drawn electrolytic copper wires (30 per cent.), certain specified component parts of textile machinery (10 per cent.), dry batteries (30 per cent.) and batteries for motor vehicles (86 per cent. St. and 80 per cent. Br. Pref.).

Section XVII

Transport Materials. Items Nos. 74-76(3).—This is an important section comprising of tramcars (30 per cent.), railway materials (18 per cent.), motor cars (60 per cent. St. and 54 per cent. Br. Pref.), certain specified parts of motor cars (90 per cent. St. and 84 per cent. Pref.), motor cycles (45 per cent. St. and 36 per cent. Br. Pref.), and other conveyances (30 per cent.). The rate of duty on aeroplane is only 3 per cent.

Cycle with its parts is a protected item and the rate of duty has been fixed at 70 per cent. St. and 60 per cent. Br. Pref.

Section XVIII

Scientific and Precision Instruments and Apparatus: Watch-makers and clock-makers wares: Musical Instruments. Items Nos. 77-79.—Musical instruments (50 per cent.), optical instruments (20 per cent.), photographic instruments (45 per cent. St. and 33 per cent. Br. Pref.) and clocks and watches (75 per cent.) are all GATT items. The duty on surgical and scientific instruments is fixed at 30 per cent. while the duty on other instruments is 36 per cent. St. and 24 per cent. Br. Pref.

Section XIX

Arms and Ammunition. Items Nos. 80-81.—The general rate of duty on arms and ammunition and cartridges is 60 per cent. *ad valorem.* Pistols, rifles and guns are however subject to an alternative specific duty.

Section XX

Miscellaneous Goods and Products not elsewhere included. Items Nos. 82-85(1).—The rate of duty for manufactured ivory; toys and games requisites and smokers' requisites has been fixed at the high rate of 75 per cent. *ad valorem.*

Section XXI

Works of Art and Articles for collections. Items Nos. 86-86(4).—The duty on pictures is 60 per cent. and works of art are chargeable at the rate of 30 per cent. *ad valorem.* Specimens and models illustrative of natural science are however free.

Section XXII

Articles not otherwise specified.—Item 87 is a residuary item and the duty is 30 per cent. *ad valorem.*

Export Schedule

The export tariff comprises of very few items and the duty is charged mostly at a specific rate. The various items are raw jute (cuttings Rs. 4/8/- per bale of 400 lbs., others Rs. 15 per bale); Jute manufactures (sacking Rs. 50 per ton and hessians Rs. 350 per ton); raw cotton (Rs. 100 per bale of 400 lbs.); rice (2 as. 3 pies per maund); tea (4 as. per lb.); manganese ore (15 per cent.); mustard oil (8 as. per lb.); black pepper (30 per cent.); iron and steel black sheets (30 per cent.) and other specified articles of iron or steel other than sheets (45 per cent. *ad valorem*).

Exemptions

Certain classes of goods are exempted from duty wholly or partially under Section 23 of Sea Customs Act.

A. *Special Consignees.*—Specified articles of military equipment imported by Military and Naval personnel are exempted from payment of duty subject to certain conditions.

2. Goods imported by consular officers of any foreign State are exempted from duty provided a corresponding exemption is granted to goods imported by or on behalf of an Indian consul.

3. Goods brought by *bonafide* commercial travellers and subsequently exported are exempted from payment of import duty.

4. All articles imported by Ruling Princes (entitled to a permanent salute of not less than 19 guns) for their personal use are exempted from import duty.

B. *Reimported Goods.*—Private personal property which are re-imported are exempted from import duty provided certain conditions are satisfied. Educational cinematograph films certified as such by the Board of Censors are exempted from duty.

C. *Raw materials.*—Celluloid raw, for the manufacture of dressing combs; asbestos, raw including fibre; bristles for brush making, including artificial or synthetic bristles; dumnuts for the manufacture of buttons and carbon black for the manufacture of printing ink and black paint; and raw materials and component parts, other than glass bulbs required for the manufacture of electric lamps are exempted from payment of import duty. Copper unwrought and scrap, zinc unwrought, tin block and tinplate scrap, and all non-ferrous metal scrap are free ietms.

APPENDIX X

Statement showing the GATT Articles against the corresponding Havana Charter Articles

GATT. Article		Havana Charter Article
III	National Treatment on Internal Taxation and Regulation .	18
IV	Special Provisions Relating to Cinematograph Films . . .	19
V	Freedom of Transit.	33
VI	Anti-Dumping and Countervailing Duties	34
VII	Valuation for Customs Purposes	35
VIII	Formalities connected with Importation and Exportation .	36
IX	Marks of Origin	37
X	Publication and Administration of Trade Regulations . .	38
XI	General Elimination of Quantitative Restrictions . . .	20
XII	Restrictions to safeguard Balance of Payments . . .	21
XIII	Non-discriminatory Administration of Quantitative Restrictions	22
XIV	Exception to the Rule of Non-discrimination	23
XV	Exchange Arrangements	24
XVI	Subsidies	25,26
XVII	Non-discriminatory Treatment on the part of State Trading Enterprises	29
XVIII	Adjustments in connection with Economic Development . .	13
XIX	Emergency Action on Imports of Particular Products . .	40
XX	General Exceptions.	45
XXI	Security Exceptions	99
XXII	Consultation	41
XXIII	Nullification or Impairment	93

APPENDIX XI

APPENDIX XI

EXPORT ARTICLES FOR WHICH RATES OF DUTIES WERE REDUCED OR BOUND

(a) *Geneva Agreement*

Sl. No.	Tariff Item No.	Name of Commodity	Reduction in General Duty	Bound at the Existing Level of Duty	Reduction in Preferential Duty	Country with which Reduction negotiated
1	2	3	4	5	6	7
			Group I—Food, Drink and Tobacco			
1	56E	Ginger . . .	Elimination of primage duty of 10% *ad val.*	..	..	Australia
2	82H	Curry Paste and Powder.	Elimination of primage duty of 10% *ad val.*	..	..	Do.
3	96 (A) (1)	Unground Cardamom, Chillies and Peppers.	From 15% to 10% *ad val*; elimination of primage of 10% *ad val.*	..	..	Do.
4	96 (A) (2)	Unground Spices. .	Elimination of primage of 10% *ad val.*	..	..	Do.
5	58	Cashew Nuts. .	From 10% to 5% *ad val*; Elimination of Monopoly Sur-Tax of 5 cents per Kilo.	..	..	Benelux
6	150	Tea. . . .	From Peso 1·80 to 1·50 per Kilo.	..	..	Chile
	3	Tea. . . .	From 6000 to 5000 Kcs. per 100 Kilos.	..	..	Czechoslovakia
7	423 .	Leaf of Tobacco .	..	Binding of 10% *ad val.*	..	China
8	71C .	Cashew Nuts .	..	Binding of 5% *ad val.*	..	France
9	82 .	Tea. . . .	From 50% to 45% *ad val.* .	..	..	Do.
10	369 .	Raw Coffee . .	..	Binding of 0·30 Kr. per Kilo.	..	Norway
11	761 .	Cashew Nuts .	From 2 cents to 1½ cents per lb.	..	..	U. S. A.
12	781 .	Mixed Spices .	From 25% to 12½% *ad val.*	..	..	Do.
			Group II—Raw Materials and Produce and Articles mainly unmanufactured.			
1	249 (A)	Mica Slabs. . .	Elimination of primage duty of 10% *ad val.*	..	..	Australia
2	249 (B)	Mica and manufactures thereof.	Do. . . .	..	..	Do.
3	254(C) .	Stick Lac and Seed Lac.	Elimination of existing duty and primage.	..	..	Do.
4	287 .	Non-Spirituous Essential oils.	Elimination of primage of 5% *ad val.*	..	..	Do.
5	315 .	Lemon Grass oil .	From 12% to 8% *ad val.*	..	..	Benelux
6	548 (a)	Coir yarn . .	..	Binding of existing rate of 4% *ad val.*	..	Do.
7	282 .	Gums, resin gums, resins and natural balsame.	..	..		..
	(18)	Shellac . .	From Cr. 448 to Cr. 1·75 per legal Kilo.	..	..	Brazil

1	2	3	4	5	6	7
	(3)	Not specified (Including button lac).	From Cr. 9·16 to Cr. 3·25 per legal kilo.	..	..	Brazil
8	175	Jute Fibre	From Peso 0·15 to 0·05 per kilo.	..	..	Chile
9	1087	Gum Lac	From Peso 0·35 to 0·175 per kilo.	..	..	Do.
10	527	Shellac and Button, Lac.	From 25% to 10% *ad val.*	..	..	China
11	539	Paraffin Wax	..	Binding at $12\frac{1}{2}$% *ad val.*	..	Do.
12	83	Goat Skins Raw.	..	Binding Free.	..	Czechoslovakia
13	174	Shellac.	..	Do.	..	Do.
14	202	Raw Jute and Sisal	..	Do.	..	Do
15	304	Raw Rubber	..	Do.	..	Do.
16	394B (1)	Stones, slabs, etc. not separately mentioned.	From 35 to 20 Kcs. per 100 Kilos.	..	..	Do.
	(2)	of Marble etc.	From 230 to 50 Kcs per 100 Kilos	..	..	Do.
	(3)	of Granite etc.	From 230 to 70 Kcs per 100 Kilos	..	..	Do.
17	264	Mica blocks, splittings and waste	..	Binding Free	..	France
18	264	Pulverised Mica	From 15% to 5% *ad val.*	..	..	Do.

1	2	3	4	5	6	7
19	733	Sheep Skins simply tanned	From 5% to 2% *ad val.*	..	..	Do.
20	734	Goat Skins simply tanned	From 5% to 2% *ad val.*	..		Do.
21	892	Raw Jute	..	Binding Free	..	Do.
22	449 (2)	Bristles	Binding Free plus 3% *ad val.* primage duty	..	..	New Zealand
23	456	Raw Jute	..	Binding Free	..	Norway
24	58	Sandalwood oil	From $12\frac{1}{2}$% to 10% *ad val.*	..	..	U. S. A:
25	208 (a)	Unmanufactured Mica	From 4 cents per lb plus 25% *ad val.* to 2 cents per lb plus 15% *ad val.*	..	..	Do.
26	208 (c)	Mica Films and Splittings, not cut or stamped :— Not above 12/1000″ thick	From 40% to 20% *ad val.*	..	..	Do.
27	208(d)	Mica Films cut or stamped	From 45% to $22\frac{1}{2}$% *ad val.*	..	..	Do.
28	208(c)	Mica Waste and scrap	From 25% to 15% *ad val.*	..	..	Do.
29	764	Nigar Seeds	From 3 cents to $1\frac{1}{2}$ cents per lb	..	..	Do.
30	1101(b)	Carpet Wool imported under bond	..	Binding Free	..	Do.
31	1684	Raw Jute and Jute Butts.	..	Do.	..	Do.
32	1707	Lac, Crude, Seeds, button, stick or shell	..	Do.	..	Do.

Group III—Articles Wholly or Mainly Manufactured

1	2	3	4	5	6	7
1	105 (A) (1) (a)	Cotton Piecegoods— (1) Unbleached	..	..	Reduction of British Preferential Margin by 3/8d. per sq. yard.	Australia
		(2) Bleached	..	..	Reduction of British Pref. Margin by ½ d. per sq. yard.	Do.
2	105 (a) (1) (b)	Cotton Piecegoods for Coating, Overcoating, etc.	Elimination of primage of 10% *ad valorem* Reduction of M.F.N. rate from 13d. to 10d. per lb	..	..	Do.
3	105(a)(1)(d)	Cotton piecegoods for Shirting, Pocketing, sheeting, etc.				
		(1) Unbleached	..	..	Reduction of British Preferential margin by 3/8d. per sq. yard.	Do.
		(2) Bleached—Dyed printed or coloured.	..	Binding of Existing rate.	Reduction of British Preferential margin by ½d. per sq. yard.	Do.
4	105(A)(1)(c)	Cotton bed tickings	..	..	Reduction of British Preferential Margin by ¾d. per sq. yard.	Do.
5	105(c)	Cotton Flannellettes— (1) Unbleached—	..	..	Reduction of British Preferential Margin by 3/8 d. per sq. yard.	Do.
		(2) Bleached	..	..	Reduction of British Pref. Margin by ½ d. per sq. yard.	Do.
		(3) Printed, Dyed or Coloured.	..	..	Reduction of British Pref. Margin by ¾d. per sq. yard.	Do.
6	117(A)	Cotton Blankets and Blanketing —				
		(1) Manufactured by jacquared process.	Elimination of primage duty of 5% *ad valorem.*	..	..	Do.
		(2) Other	Elimination of primage duty of 10% *ad valorem.*	..	..	Do.
7	118(A) (2)	Floor Covering, floor rugs, etc. not being wholly of Cotton-Hand Woven Carpets, Carpeting rugs etc.	From 30% to 15% *ad valorem*	..	..	Do.
8	119 (B)	Coir Mats and Matting.	Elimination of primage duty of 10% *ad valorem.*	..	..	Do.
9	281(L)	Strychnine and its Salts—				
		(1) Not packed for retail sale.	From 15% to 10% *ad valorem* and elimination of primage of 5% *ad valorem.*	..	..	Do.
		(2) Packed for retail sale.	From 25% to 20% *ad valorem.* Elimination of primage of 10% *ad valorem.*	..	..	Do.
10	310 (A)	Cricket Bats, Bat Blades and Balls.	From 67½% to 50% *ad valorem.* Elimination of primage of 10% *ad valorem.*	..	..	Do.

1	2	3	4	5	6	7
11	534	Cotton Carpets & Table Covers.	From 30% to 24% *ad valorem*	..	..	Benelux
12	556 (a)	Jute Carpets	From 30% to 24% *ad valorem*	..	..	Do.
13	556 (b)	Coir Carpets	From 30% to 24% *ad valorem*	..	..	Do.
14	100	Jute yarn and thread.	..	Binding of 15% *ad valorem.*	..	China
15	106	Hessian Cloth	From 15% to 12½% *ad valorem*	..	..	Do.
16	107	New Hemp and Hessian Bags.	..	Binding of 15% *ad valorem.*	..	Do.
17	86	Gut Strings.	From 30 to 24 Kcs. per 100 kilos	..	..	Czechoslovakia
18	159 (b)	Tanning Barks, Room Fruits, Myrobalans.	..	Binding Free	..	Do.
19	218(a)	Jute Carpets not with pile.	From 1500 to 1200 Kcs. per 100 kilos.	..	..	Do.
	(b)	With pile.	From 5000 to 4000 Kcs. per 100 kilos.	..	..	Do.
20	280	Coir Mats & Mattings.	From 200 to 120 Kcs. per 100 kilos	..	..	Do.
21	993	A & B Jute Tissues.	From 40% to 25% *ad valorem.*	..	..	France
22	1033 (g)	Coir Mats and Mattings.	From 30% to 25% *ad valorem.*	..	..	Do.
23	1092(A) 4	Jute Bags, new and empty.	From 40% to 30% *ad valorem*	..	..	Do.
24	1092(B)	Jute Bags Imported Full.	From 16% to 12% *ad valorem.*	..	..	Do
25	105	Strychnine and its Salts.	Binding Free plus 30% *ad valorem* primage duty.	..	..	New Zealand
26	140	Jute Bags	Binding Free plus 30% *ad valorem* primage duty.	..	..	Do.
27	140	Wool packs wool pockets.	..	Binding free.	..	Do.
28	144	Brattice Cloth of Jute.	Binding Free plus 3% *ad valorem* primage duty.	..	..	Do.
29	180 (1)	Jute piece goods	Binding Free plus 3% *ad valorem* primage duty.	..	..	Do.
30	191	Jute yarn	Binding Free plus 3% *ad valorem* primage duty.	..	..	Do.
31	451	Badminton rackets and Balls.	From 4 Kr to 1 Kr per Kilo.	..	..	Norway
32	743	Hessian and gunny Bags.	..	Binding of 0·20 Kr per Kilo.	..	Do.
33	781	Footballs	From 1·50 Kr to 1 Kr. per Kilo.	..	..	Do.
34	835	Catgut Strings.	From 1·20 Kr. to 1 Kr. per Kilo.	..	..	Do.
35	893	Tennis Rackets	..	Binding of 1 Kr. per Kilo.	..	Do.
36		Prel. Prov. Golf 6 Clubs.	From 15% *ad valorem* to 1 Kr. per Kilo.	..	..	Do.
37	412	Badminton Rackets & frames.	From 33⅓% to 16⅔% *ad valorem.*	..	..	U. S. A.
38	923	Badminton nets	From 30% to 20% *ad valorem*	..	..	Do.

1	2	3	4	5	6	7
39	1008	Jute Burlaps Unbleached.	From 1 cent to ½ cent per lb.	..	..	U. S. A.
		Bleached.	From 1 cent per lb. plus 10% *ad valorem* to ½ cent per lb. plus 5% *ad valorem*.	..	..	Do.
40	1018	Jute Bags and Sacks Unbleached.	From 1 cent per lb. plus 10% *ad valorem* to ½ cent per lb. plus 5% *ad valorem*.	..	..	Do.
		Bleached.	From 1 cent per lb. plus 15% *ad valorem* to ½ cent per lb. plus 7½% *ad valorem*.	..	..	Do.
41	1019	Jute Bagging for Cotton.	..	Binding of 6 cent per 10 sq. yards.	..	Do.
42	1022	Pile Mats or Floor Coverings of Coir.	From 12 cents per sq. ft. to 10 cents per sq. ft.	..	..	Do.
43	1022	Coir mattings and articles made therefrom.	From 10 cents per sq. yd. to 5 cents per sq. yd.	..	..	Do.
44	1022	Pile Mats made of Rattan.	From 8 cents per sq. ft. to 4 cents per sq. ft.	..	..	Do.
45	1117 (c)	Woollen Carpets and Rugs valued upto 40 cents per sq. ft.	From 30% to 15% *ad valorem*.	..	..	Do.
46	1502	Tennis Rackets.	From 30% to 17½% *ad valorem*.	..	..	Do.

(b) *Annecy Agreement*

Group I.—Food, Drink and Tobacco

1	08-013	Cashew Kernels.	..	Duty of 81 Marks, Kilo bound.	..	Finland.
2	70(c)	Cashew Kernels.	From 15% to 10% *ad valorem*.	..	..	Italy.
3	82(a)	Pepper.	From 70% *ad valorem* with minimum of 350 lire per Kilo to 60% *ad valorem* with minimum of 300 lire per Kilo.	..	..	Do.
4	72:2	Cashew Kernels.	From 50 Kr. per 100 Kg to 30 Kr. per 100 Kg. If duty is changed to *ad valorem* it would not exceed 15%.	..	..	Sweden.
5	75:2	Tea	From 150 Kr. per 100 Kg. to 100 Kr. per 100 Kg.	..	..	Do.
6	83	Cardamoms	From 300 Kr. per 100 Kg. to 200 Kr. per 100 Kg. If duty is changed to *ad valorem* it would not exceed 25%.	..	..	Do.

Group II.—Raw Materials and produce and Articles mainly unmanufactured

1	94	Shellac.	..	Free entry bound.	..	Denmark.
	13-005	Shellac.	..	Free entry bound.	..	Finland.
2	16 (a)	Linseed.	..	Binding of duty of 75 centimes per 100 Kg.	..	Greece.
3	16 (K)	Castor Seed	From 35 to 20 metallic drachmae per 100 Kg.	..	..	Do.

1	2	3	4	5	6	7
4	17 (g)	Linseed Oil.	From 30 to 20 metallic drachmae per 100 Kg.	..	..	**Greece.**
5	203(a)	Raw Hemp.	..	Duty of 1 metallic drachmae per 100 Kg bound.	..	Do.
		N.B.—The existing co-efficient of increase of the duties and the surcharge of 75% will be maintained in each case with reference to all exports to Greece.				
6	3001(a)	Raw Cotton not ginned, with staple not exceeding 9/10".	..	Duty bound at 6 cents per Kilo.	..	Haiti.
7	3002(a)	Ginned Cotton with staple not exceeding 9/10".	..	Duty bound at 10 cents per Kilo.	..	Do.
8	110(a)	Groundnut.	From 10% to 8% *ad valorem*	..	..	Italy.
9	110(e)	Castor Seed.	..	Duty bound at 10% *ad valorem.*	..	Do.
10	110(f)	Linseed.	..	Duty bound at 10% *ad valorem.*	..	Do.
11	110(h)	Rape Seed.	..	Duty bound at 10% *ad valorem.*	..	Do.
12	110(m)	Seasame Seed.	From 10% to 8% *ad valorem*	..	..	Do.
13	121(e)(1)(a)	Lac—Unbleached.	..	Free entry bound.	..	Do.
	(b)	Otherwise.	From 5% to 3% *ad valorem*	..	..	Do.
14	127(a)	Fibre for brushes and brooms of the type of Caryota Urens and Epicampes macrowra.	..	Free entry bound.	..	Do.
15	253(a)	Mica, Crude in blocks or splittings.	From 5% *ad valorem* to Free.	..	..	Do.
	(b)	Powder.	Do.	..	..	Do.
	(c)	Waste	..	Free entry bound.	..	Do.
16	424(a) (3)	Lemongrass Oil.	From 15% *ad valorem* plus excise to 10% *ad valorem* plus excise.	..	..	Do.
17	688(a)	Coir fibre.	..	Free entry bound.	..	Do.
18	688 (b) (1)	Palmyra Palm fibre.	..	Free entry bound.	..	Do.
19	803 (a —1)	Mica in Sheets and Plates simply cut.	From 5% to 3% *ad valorem.*	..	..	Do.
20	103	Shellac.	..	Free entry bound.	..	Sweden.
21	104	Fibres for brushes and brooms (Piassava).	..	Free entry bound.	..	Do.
22	113	Castor Oil.	..	Free entry bound.	..	Do.
23	293	Hides and Skins of Cattle of the bovine species dried.	..	Free entry bound.	..	Do.
		Group III.—Articles wholly or mainly manufactured				
1	152/5	Coir yarn twisted more than once not more than 2 kilo per 100 metres.	From 4 cents per Kilo to Free.	..	..	Denmark.
		Otherwise.	..	Duty bound at 4 cents per Kilo.	..	Do.

1		3	4	5	6	7
2	199/1 .	Jute gunny bags.	..	Free entry bound.	..	Denmark.
3	182/13 .	Piecegoods of Jute.	..	Free entry bound.	..	Do.
4	49-035 .	Coir Mats and Mattings.	From 27 to 20 Marks per Kilo. .	..	..	Finland.
5	208(a) .	Jute tissues containing on each side of a square of 5 mm.				
		(1) Upto 6 threads .	..	Duty of 16 metallic drachmae per 100 Kg. bound.	..	Greece.
		(2) Over 6 upto 12 threads.	..	Duty of 24 metallic drachmae per 100 Kg. bound.	..	Do.
		(3) Over 12 upto 26 threads.	From 140 to 120 metallic drachmae per 100 Kg.	..	..	Do.
		(4) Over 26 upto 40 threads.	From 250 to 200 metallic drachmae per 100 Kg.	..	..	Do.
		(5) Over 40 threads.	From 400 to 350 metallic drachmae per 100 Kg.	..	..	Do.
6	209 (a) .	Jute bags, new or used.	..	Duty on Tissue plus 20% of duty bound.	..	Do.
7	209(b) .	Jute bags, new or used imported under rules for packing chemicals.	..	Duty of 6 metallic drachmae per 100 Kg. bound.	..	Do.
8	216 (a) .	Coir Mats and Mattings.	..	Duty of 60 metallic drachmae per 100 Kg. bound.	..	Do.

N.B.—The existing Co-efficient of increase of the duties and the surcharge of 75 % will be maintained in each case, with reference to exports to Greece).

1		3	4	5	6	7
9	113(b)(3)	Senna —(B) (11) if if the natural state	..	Free entry bound.	..	Italy.
		Otherwise . .	From 10% to 5% *ad valorem.*			Do.
10	1) (2)	Coir yarn. . .	From 15% to 5% *ad valorem.* .	..	..	Do.
11	691(a)	Jute cloth—Unbleached.	From 40% to 35% *ad valorem.* .	..	..	Do.
12	701(d) .	Coir Mats and Mattings.	From 28% to 25% *ad valorem.* .	..	..	Do.
13	752(a)a)	Jute bags new but empty.	From 40% to 35% *ad valorem.*	..	..	Do.
14	470 .	Coir Mats and Mattings without admixture of other taxitile materials.	..	Duty of 7 Kr. per 100 Kg. bound. If duty is changed to *ad valorem* it won't exceed 7%.	..	Sweden.
15	573 . .	. .	..	Duty on fabric (10 to 40 Kr. Per 100 Kg. according to texture) plus 15% of duty bound. If duty is changed to *ad valorem* it won't exceed 15% with minimum of 20 Kr. per 100 Kg.	..	Do.

APPENDIX XII

Import articles for which Rates of Duties were Reduced or Bound

(a) Geneva Agreement

Serial No.	Tariff item No.	Name of commodity	Reduction in Standard Duty	Bound at the existing level of Duty	Reduction in preferential Duty	Country with which Agreement is entered
1	2	3	4	5	6	7
			Group I.—Food, Drink and Tobacco			
1	2	Bacon and Ham	From 30% to 25% *ad valorem.*	..	..	Australia.
2	4	Butter	From 30% to 25% *ad valorem.*	..	..	Do.
3	4 (1)	Skimmed Milk dried or Powdered.	..	Binding Free	..	Do.
4	4 (1)	Milk condensed or preserved including milk cream.	From 30% to 25% *ad valorem.*	..	..	Do.
5	8	Fresh Apples and Pears.	From 36% to 30% *ad valorem.*	..	..	Do.
6	8 (1)	Currants	From Rs. 1/8/- to Re. 1/- per cwt.	..	..	Do.
7	4	Cheese	From 30% to 25% *ad valorem.*	..	..	Benelux.
8	10	Rice		Binding Free	..	Brazil.
9	16 (1)	Canned Fish	From 30% to 20% *ad valorm.*	..	..	Canada.
10	9 (3)	Cassia Lignea	From 54% to 50% *ad valorem.*	..	..	China.
11	22 (3) *a*	Champagne	From Rs. 19/11/- to Rs. 16 /-/- per gallon.	..	..	France.
12	22 3) *b*	Other Wines	From Rs. 11/4/- to Rs. 9/8/- per gallon.	..	..	Do.
13	22 (5) *d*	Rum	From Rs. 56/4/- to Rs. 55/5/- per gallon.	..	..	Do.
14	16 (1)	Sardines and pilchards (Canned).	From 30% to 20% *ad valorem.*	..	..	U. S. A.
15	24 (3)	Tobacco Unmanufactured.	..		Elimination of Colonial Preference of Re. -/8/- per lb.	Do.
16	16	Bacon and Ham Canned.	From 30% to 25% *ad valorem.*	..	..	Benelux.
17	9(6)	Vanilla Beans.	From 30% to 20% *ad valorem.*	..	..	France.
18	22 (5) (*a*)(*i*)	Bitters not to be tested.	From Rs. 75/- to Rs. 73/2/- per gallon.	..	..	Do.
19	22(5)(*a*) (*ii*)	Bitters to be tested.	From Rs. 56/4/- to Rs. 55/5/- per gallon.	..	..	Do.
20	21	Canned Meat	From 30% to 20% *ad valorem.*	..	..	New Zealand.
21	21 (1)	Frozen Meat	From 30% to 20% *ad valorem.*	..	..	Do.
22	28	Lactose.	From 36% to 30% *ad valorem.*	..	..	Do.
23	4 (1)	Sterilised Cream	From 30% to 25% *ad valorem.*	..	..	U. S. A.
24	7	Dehydrated Vegetables.	From 36% to 30% *ad valorem.*	..	..	Do.
25	8	Fresh Prunes and Grapes.	From 36% to 30% *ad valorem.*	..	..	Do.
26	20 (1)	Juices of certain specified Fruits.	..		Margin of preference Colononial prcducts reducedad by 6% *ad valorem.*	Do.

1	2	3	4	5	6	7
27	20 (2)	Canned Vegetables etc.	From 36% to 30% *ad valorem.*	..	..	U.S.A.
28	20 (2)	Canned Asparagus .	From 36% to 24% *ad valorem*	..	..	Do.
29	20 (2)	Canned Fruits of specified variety.	..	..	Margin of preference on colonial products reduced by 6% *ad valorem.*	Do.
30	20 (2)	Canned Pine-apples	..	..	Margin of preference on colonial products reduced by 4% *ad valorem.*	Do.
31	21	Canned Soup . .	From 30% to 25% *ad valorem.*	..		Do.
32	21 (1)	Soups other sorts .	From 30% to 25% *ad valorem.*	..	..	Do.
33	21 (1) (*B*)	Blended Flavouring Concentrates.	..	Binding of 30% *ad valorem.*	..	Do.
		Group II.—Raw Materials and Produce and Articles mainly unmanufactured				
1	15	Stearine . .	From 30% to 25% *ad valorem.*	..	..	Australia.
2	15 (3)	Tallow . . .	..	Binding Free	..	Do.
3	46 (2)	Wool Raw and Wool Tops.	..	Binding Free	..	Do.
4	74 (2)	Wooden Railway Sleepers.	From 18¾% to 15% *ad valorem*	..	..	Canada.
	15 (5)	Fish Oil & Whale Oil Hardened or hydrogenated.	From Rs. 12/- to Rs. 10/- per cwt.	..	..	Norway.
6	13 (4)	Rosin . . .	From 36% to 24% *ad valorrm.*	..	..	U.S.A.
7	15	Mineral Grease etc.	From 30% to 27% *ad valorem.*	..	..	Do.
8	27 (1)	Asphalt . .	From 30% to 27% *ad valorem.*	..	..	Do.
9	27 (3)	Mineral Oil not other wise specified.	From 30% to 27% *ad vaorlem.*	..	..	Do.
10	68 (1)	Zinc Unwrought .	..	Binding free	..	Australia.
11	70 (1)	Lead (Pig) . .	..	Binding free	..	Do.
12	70 (1)	Copper Unwrought	..	Binding free	..	U.S.A.
13	27 (2)	Coal Tar & Pitch .	From 30% to 27% *ad valorem.*	..	..	Do.
14	28	Crude Iodine .	From 36% to 30% *ad valorem.*	..	..	Chile.
15	35	Nitrate of Soda .	..	Binding free	..	Do.
16	16 (6)	Tung Oil . .	From 42% to 30% *ad valorem.*	..	..	China.
17	13	Cochineal . .	From 30% to 20% *ad valorem.*	..	..	France.
18	44	Cigarette Paper .	From 30% to 20% *ad valorem.*	..	..	Do.
19	12	Grass & Clover Seeds.	From 30% to 15% *ad valorem.*	..	..	New Zealand.
20	15 (8)	Neatsfoot Oil .	From 30% to 15% *ad valorem.*	..	..	Do.
21	21	Rennet Essence .	From 30% to 20% *ad valorem.*	..	..	Do.
22	40	Douglas Fir .	From 30% to 20% *ad valorem.*	..	..	U.S.A.

Group III.—Articles Wholly or Mainly Manufactured

1	2	3	4	5	6	7
1	72	Petroleum & Gas Well Drilling Machinery.	..	Binding of 10% *ad valorem.*	..	U. S. A.
2	30	Lithophone . .	From 36% to 30% *ad valorem.*	..	..	Benelux.
3	72 (3)	for Carding, Spinning and Washing of Wool excluding Electric Motors etc.	..	ding of Existing Duty of 10% *ad valorem.*	..	Do.
4	71	Stoves for use with Liquid Fuel and Burners therefor.	From 30% to 20% *ad valorem.*	..	..	Canada.
5	52	Cotton and Linen Lace and Trimmings.	From 30% to 25% *ad valorem.*	..	..	China.
6	53	Linen Embroideries	From 30% to 25% *ad valorem.*	..	..	Do.
7	55	Straw Hats . .	From 30% to 20% *ad valorem.*	..	..	Do.
8	30 (1)	The following Coal-Tar Dyes:— Alizarine Moist exceeding 20% AZO dyes Sulphur lac Sulphur Dyes of other colours: Powder. . Ultrazels Vats.	..	Binding of 12% *ad valorem.*	..	Czechoslovakia.
9	60 (3)	Glass Beads and False pearls.	From 60% to 50% *ad valorem.*	..	..	Do.
10	72	Metal Working Machinery excluding Machine tools.	..	Binding of 10% *ad-valorem.*	..	Do.
11	72	Boots and Shoe Making Machinery.	..	Do.	..	Do.
12	72	Sound Recording Apparatus.	..	Do.	..	U.S.A.
13	72	Cinema Projecting Apparatus.	..	Do.	..	Do.
14	72	Oil Crushing Machinery.	..	Do.	..	Do.
15	72	Refrigerating Machinery.	..	Do.	..	Do.
16	72 (3)	Parts of above mentioned Machinery.	..	Do.	..	Do.
17	72 (5)	Domestic Refrigerators and parts thereof.	From 36% to 30% *ad valorem.*	..	..	Do.
18	72 (6)	Type Writers and Parts, Office Machines and Parts.	From 30% to 20% *ad valorem.*	..	..	Do.
19	72 (8)	Ploughs & Parts .	..	Binding Free	..	Do.
20	72 (8)	Agricultural Tractor & Parts.	..	Do.	..	Do.
21	73 (2)	Electric Carbons & Electro medical Apparatus.	From 30% to 20% *ad valorem.*	..	..	Do.

1	2	3	4	5	6	7
22	73 (4)	Wireless Valves .	From 60% to 50% *ad valorem*.	..	From 48% to 44% *ad valorem*.	U. S. A.
23	73(4)	Wireless Receivers .	Do.	..	Do.	Do.
24	73 (4)	Other parts of Wireless receivers.	Do.	..	Do.	Do.
25	75 (1)	Motor Cars & Parts	..	..	Reduction of Preferential Margin by 3% *ad valorem* at present, by further 3% at the end of 3 years and by the whole amount at the end of 6 years.	Do.
26	76	Aeroplanes & Parts.	..	Binding of 3% *ad valorem*.	..	Do.
27	77 (2)	Optical Instruments	From 30% to 20% *ad valorem*.	..	..	Do.
28	71 (2)	Safety Razor Blades	..	Binding of 30% *ad valorem*.	..	Do.
29		Mining Machinery	..	Binding of 10% *ad valorem*.	..	Do.
30	72	Sugar Making and Refining Machinery	..	Do.	..	Czechoslovakia.
31	22 (5) C	Perfumed Spirits .	Surcharge reduced from ½ to ¼ duty.	..	..	France.
32	49 (2)	Ribbons . .	From 60 % to 50% *ad valorem*.	..	..	Do.
33	55	Hats & Caps etc. .	From 30% to 20% *ad valorem*.	..	..	Do.
34	79	Musical Instruments	From 60% to 50% *ad valorem*.	..	..	Do.
35	28	Chemicals, Drugs and Medicines.	..	..	Margin of Preference on U.K. and Colonial products reduced by 2% *ad valorem*.	Do.
36	28	Cod Liver Oil in Small packings.	From 36% to 30% *ad valorem*.	..	..	Norway.
37	28 (14)	Tooth-paste and powder Talcum powder, Shaving Soap & cream.	..	Binding of 30% *ad-valorem*	..	U.S.A.
38	30	Paints etc. containing dangerous Petroleum.	From 36% to 24% *ad valorem*.	..	..	Do.
39	30 (1)	Coal-Tar Dyes .	..	Binding of 12% *ad valorem*.	..	Do.
40	28 (8)	Borax, Acetic Acid, Boric Acid and Phenol.	From 30% to 25% *ad valorem*	..	..	Do.
41	31 (4)	Camphor . .	From 60% to 50% *ad valorem*.	..	..	Do.
42	60 (2)	Electric Bulbs for Torches and Automobiles.	Do.	..	..	Do.
43	28	Acetyl Salicyellic Acid tablets and powder, Atropine sulphate Cresylic Acid, Hyoscine hydro-bromide, Vitamins A & B Phenoburbital.	From 36% to 30% *ad valorem*.	..	..	Australia.

1	2	3	4	5	6	7
46	49 (b)	Cotton Drawn Thread Embroideries etc. on bed sheets etc.	From 60% to 50% *ad valorem.*	..	..	China.
47	55	Fezes	From 30% to 20% *ad valorem*	..	..	Do.
48	71	Imitation Jewellery	..	Binding of 30% *ad valorem.*	..	Do.
49	72 (3)	Parts of Metal Working, Boot & shoe making and Sugar making Machines.	..	Binding of 10% *ad valorem.*	..	Do.
50	72 (4)	Passenger Lifts & Parts.	From 30% to 25% *ad valorem.*	..	..	France.
51	72 (8)	Hay Presses . .	..	Binding free.	..	New Zealand.
52	72 (9)	Milking Machines .	..	Do.	..	Do.
53	87	Wall boards of Wood Fibre.	From 30% to 25% *ad valorem.*	..	..	Do.
54	84	Fishing Hooks .	From 60% to 30% *ad valorem.*	..	..	Norway.
55	28	Penicillin & other anti-bictics, Sulphur Drugs etc.	From 36% to 30% *ad valorem.*	..	..	U. S. A.
56	29 (1)	Exposed Cinema Films Shorts only.	..	Outside the agreement reduction of Standard rate by 1 anna per linear foot (Rate not bound)	..	Do.
57	45	Fountain Pens .	..	Binding of 30% *ad valorem.*	..	Do.
58	73 (4)	Combination Radio Phonographs.	From 60% to 54% *ad valorem.*	..	..	Do.
59	73 (4)	Wireless Transmission Apparatus & Parts.	From 60% to 30% *ad valorem.*	..	From 48% to 20% *ad valorem.*	Do.
60	78	One-day Alarm Clocks.	From 60% to 50% *ad valorem.*	..	..	Do.

(b) Annecy Agreement

Group I.—Food, Drink & Tobacco

1	16	Canned or bottled Bacon and Lard.	From 25% to 20% *ad valorem.*	..	..	Denmark.
2	8 (2)	Figs	..	..	Pref. Margin reduced from 12% to 6% *ad valorem* without binding the rates.	Greece.
3	22 (5) (d)	Rum	(Duty as reduced in Geneva bound to Haiti). From Rs. 56/4/- to Rs. 55/5/- per Imperial gallon of London proof.	..	..	Haiti

Group II.—Raw Materials and Produce and Articles Mainly unmanufactured

1	43	Wood-pulp . .	From 18% to 15% *ad valorem.*	..	..	Sweden & Finland.
2	44 (1)	Cigarette paper in rolls and bobbins.	Duty as reduced in Geneva bound to Finland. From 30% to 20% *ad valorem.*		..	Finland.
3	13 (3)	Gum Mastic . .	From 30% o 25% *ad valorem.*		..	Greece.

1	2	3	4	5	6	7
4	15 (6)	Sulphur oil for Soap Industry.	..	..	Elimination of Pref. Margin of 12% without binding the rate of duty.	Greece.
5	25 (7)	Marble and Stone not otherwise specified including pumice Stone.	From 30% to 25% *ad valorem.*	..	..	Italy.
6	*87	Quick Silver . .	From 30% to 25% *ad valorem.*	..	..	Do.
7	87	Staple Fibre (excluding yarn).	From 30% to 25% *ad valorem.*	..	..	Do.
8	40	Coniferous Wood.	From 30% to 25% *ad valorem.*	..	..	Sweden.
		Group III.—Articles Wholly or Mainly Manufactured.				
1	40 (7)	Wall Boards of wood Fibre.	Duty as reduced in Geneva bound to Sweden & Finland. From 30% to 25% *ad valorem.*	..	..	Sweden & Finland.
2	26 (8)	Citric and Tartaric Acids.	From 30% to 25% *ad valorem.*	..	..	Italy.
3	31 (2)	Natural Essential oils—namely Berganot and Lemon.	From 30% to 25% *ad valorem.*	..	..	Do.
4	58	Articles made of Stone (including pumice Stone) and Marble.	From 30% to 25% *ad valorem.*	..	..	Do.
5	72	Cotton Bleaching & Weaving Machine.	..	Duty bound at 10% *ad valorem.*	..	Do.
6	72 (1)	Cotton Printing Machines.	..	Do.	..	Do.
7	82	Coral Prepared .	From 30% to 25% *ad valorem.*	..	..	Do.
8	28 (8)	Potassium Chlorate.	From 30% to 25% *ad valorem.*	..	..	Sweden.
9	28 (14)	Viscose Sponges .	..	Duty bound at 37½% *ad valorem.*	..	Do.
10	71 (9)	Stoves for use with Kerosene, Gasoline or other liquid fuels and burners therefor.	Duty as reduced in Geneva bound to Sweden. From 30% to 20% *ad valorem.*	..	..	Do.
11	72 (3)	Ball and Roller bearings for use with shafting of more than 2 inch diameter and adapter bearings etc.	..	Duty bound at 10% *ad valorem.*	..	Do.
12	87	Prefabricated Timber Houses.	From 30% to 25% *ad valorem.*	..	..	Do.

*At present quick silver is assessed under tariff item No. 70 (7) of Indian Customs Tariff and is admitted free of duty.

APPENDIX XIII (A)

THE INDO-BRITISH TRADE AGREEMENT, 1939

SCHEDULES V & VI

Schedule V

(a) Preferences at a rate of not less than 10 per cent. *ad valorem*—

Asphalt.

Soda ash, including calcined, natural soda and manufactured sesquicarbonates.

Gum arabic.

Gum benjamin, ras and cowrie.

Gum dammer.

Dammer batu, unrefined.

Rosin.

Cutch.

Gambier, all sorts.

Coconut oil.

Fresh vegetables.

Vegetables, dried, salted or preserved.

Fruit and vegetables, canned and bottled.

Fruit juices.

Sisal and aloe fibre.

Ivory, unmanufactured.

Sago (but not sago flour).

Tapioca and tapioca flour.

Artificial teeth.

So long as it is consistent with India's Tariff policy to impose customs duties on the commodities in question—

Fresh fruits (other than coconuts).

Dried, salted or preserved fruits.

(b) Preferences at a rate of 7½ per cent. *ad valorem*—

Betelnuts.

Unground spices (other than cardamoms).

Cardamoms, cassia, cinnamon, cloves, nutmegs and pepper-ground. And, so far as preferences are granted to the United Kingdom, drugs and medicines and apparel of all kinds.

(c) Preferences at specific rates—

Bitters at the rate of Rs. 3-12 per gallon.

Coffee at the rate of 1 anna per lb.

Rum at the rate of Rs. 3-12 per proof gallon.

Unmanufactured tobacco at the rate of 8 annas per lb.

Schedule VI

(a) Preferences at a rate of not less than 10 per cent. per *ad valorem*—

Citronella oil.

Cinnamon oil.

Cinnamon-leaf oil.

Coconuts, husked, unhusked and other kinds, copra or coconut kernel, coir fibre, coir yarn, coir mats and matting.

Fish, dry, unsalted.

Oil seeds (other than essential).

Vegetable oils (other than essential).

Plumbago.

(b) Preference at a rate of $7\frac{1}{2}$ per cent. *ad valorem*—

Cardamoms, unground.

(c) Preference at specific rate—

Tea at the rate of 2 annas per lb.

APPENDIX XIII (B)

Indo-British Trade Agreement, 1939

EXPORTS

List of articles in respect of which concessions were received	Margin of Preference as modified after negotiation at Geneva and Annecy
I.—Preferences at a rate of 10% ad valorem:—	
1. Bones	
2. Castor seed	
3. Coir yarn	7½%
4. Cotton yarns, unbleached upto No. 40 count	
5. Goat skins, raw, dried or salted or pickled, but not further treated, of varieties supplied by India to U.K.	7½%
6. Gram or chick pea	
7. Groundnuts	
8. Teak and other hard woods	
9. Leather, undressed, hides other than sole leather.	
10. Leather, undressed, skin	
11. Linseed	
12. Magnesite	
13. Oil seed cake and meal	
14. Paraffin wax	
15. Sandal-wood oil	
16. Soyabeans	
17. Spices —(Pepper, Ginger and Cardamoms).	5%
II.—Preferences at a rate of 15% ad valorem.:—	
18. Oils—Vegetable, Non-Essential (Castor, Linseed Coconut, Groundnut, Rape, Seasamum)	Castor oil 12½%
19. Granite Setts and kerbs	10%
20. Leather dressed :—	
(a) Box and willow calf, box and willow sides, and other chrome tanned, calf, kip and hide leather, but not patent leather or machinery belting.	10% (Chrome leather, waste or scrap.)
(b) Reptile leather of the following description :—snake, lizard, crocodile and alligator skins, not shaped or subjected to any process other than dressing or dressing and colouring.	
21. Manufactures wholly of jute, the following :—cordage, cables, ropes and twine (including polished, starched or glaced singles and all multiples).	
III.—Preferences at a rate of 20% ad valorem.:—	
22. Coir mats and mattings.	
23. Manufactures wholly of cotton, the following :—	
(a) Tissues and like materials	7½%
(b) Household goods and similar articles for non-domestic use	17½% (Household goods).
(c) Blankets, shawls, coverlets and travelling rugs	17½%
(d) Handkerchief	
24. Manufactures wholly of jute, the following :—	
(a) Tissues not made up (not including rags)	
(b) Sacks and bags of a shape similar to sacks.	
IV.—Preference at a specific rate of 1sh. per cwt.	
25. Magnesium chloride.	
V.—Preference at a specific rate of 9sh. 4 d. per cwt.	
26. Coffee.	
VI.—Preference at a specific rate of 2d. per lb.	
27. Tea	
VII.—Preference at a specific rate of 2d. per lb.	
28. Rice husked, including cargo rice and cleaned rice whole, but not including broken rice	6 sh. per cwt.
29. Rice in the husk	6 sh. per cwt.
VIII.—Preferences at the undermentioned rates.	
30. Carpets, carpeting and floor rugs, wholly or partly of wool and not containing any silk or artificial silk.	
(a) Hand-made knotted—4sh. 6d. per sq. yd. exclusive of fringes	20%
(b) Other kinds —20% *ad valorem*.	
IX.—Preference at a specific rate of 2s. ½ d. per lb.	
31. Tobacco, unmanufactured	1 sh. 3 d. per lb if m.f.n. rate does not exceed £ 2·5·2 per lb. and 1 sh. per lb. if m.f.n. rate does not exceed £ 1·15·6 per lb.
X.—Free of duty from all sources.	
1. Shellac, seed lac, stick lac and other varieties of these lacs.	
2. Jute, raw	
3. Myrabolans	
4. Mica slabs and splittings.	
5. Hemp of the variety crotoralia juncea, not further dressed after scutching or decorticating, tow of such variety of hemp.	

APPENDIX XIII (C)

Indo-British Trade Agreement (1939)

IMPORTS

List of articles in respect of which concessions were granted on goods of U.K. origin on importation into India.

Margin of Preference (1939 Agreement)	Articles	Tariff Item	Margin of Preference as modified after negotiations at Geneva and Annecy
1	2	3	4
	1. Drugs and medicines containing spirit :—	22 (5) (*b*)	
Rs. 4 per Imperial gallon.	(*a*) Entered in such a manner as to indicate that the strength is not to be tested.		
Rs. 3 per Imperial Gallon of the strength of London Proof.	(*b*) Not so entered		
10 per cent.	2. Cement not otherwise specified	25 (4)	
10 per cent.	3. Chemicals, Drugs and medicines all sorts not otherwise specified	Ex. 28	6% (excluding certain items of chemicals, drugs and medicines.)
10 per cent.	4. Paints, Colours and Painter's materials all sorts not otherwise specified including paints, solutions and compositions containing dangerous petroleum within the meaning of the Indian Petroleum Act 1934.	30	6%
10 per cent.	5. Paints, Colours and Painter's materials, the following namely :— (*a*) Red lead, Genuine dry, Genuine moist and reduced moist. (*b*) White lead, genuine dry. (*c*) Zinc white, genuine dry. (*d*) Paints, other sorts, coloured moist.	30 (2)	
10 per cent.	6. Fents being *bonafide* remnants of piecegoods or other fabrics. .	49 (1)	

Margin of Preference (1939 Agreement)	Articles	Tariff Item	Margin of Preference as modified after negotiations at Geneva and Annecy
10 per cent.	7. Woollen carpets, Floor rugs, Shawls and other manufactures of wool, not otherwise specified including felt but excluding woollen waste and rags.	Ex. 49 (4)	
10 per cent.	8. Iron or Steel hoops and strips	63 (14)	
10 per cent.	9. Iron or steel barbed or stranded wire and wire rope . . .	63 (24)	
10 per cent.	10. Copper, Wrought & manufactures of copper, all sorts, Not otherwise specified.	64	
10 per cent.	11. Domestic Refrigerators	72 (5)	6%
10 per cent.	12. Sewing and knitting machines and parts thereof	Ex. 72 (6)	
10 per cent.	13. Electrical instruments, Apparatus and appliances not otherwise specified, excluding telegraphic and telephonic (except batteries, and electro-medical apparatus)	Ex. 73	
10 per cent.	14. Electrical instruments, Apparatus and appliances, as specified .	73 (1)	
10 per cent	15. Wireless reception instruments and apparatus and component parts thereof, including all electric valves, amplifiers and loud speakers which are not specially designed for purposes other than wireless reception or are not original part of and imported along with instruments or apparatus so designed.	73 (4)	6%
7½ per cent.	16. Motor cars including Taxi cabs and articles (other than rubber tyres tubes) adopted for use as parts and accessories thereof.	75 (1)	6% subsequent elimination of preference in two or more stages of 3% each
7½ per cent.	17. Motor cycles and motor scooters and articles (other than rubber tyres and tubes) adopted for use as parts and accessories thereof.	75 (2)	
7½ per cent.	18. Motor omnibuses; chassis of motor omnibuses, motor vans and motor vans and motor lorries; and parts of mechanically propelled vehicles and accessories not otherwise specified excluding rubber tyres and tubes.	75 (3)	..
10 per cent.	19. Cycles (other than motor cycles) imported entire or in sections and parts and accessories thereof excluding rubber tyres and tubes.	Ex. 75 (4)	..
10 per cent.	20. Instruments, apparatus and appliances, other than electrical not otherwise specified, including photographic, but excluding scientific, philosophical and surgical.	Ex. 77	..

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